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February 1, 1999

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Ms. Magalie Roman Salas
Secretary - Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RE: CC Docket Nos. 96-45 and 97-160
FCC CCB Cost Model Input Workshops

Dear Ms. Salas,

This letter transmits U S WEST comments to the Common Carrier Bureau staff on one of the topics which was covered during the December cost model input workshops, and follow-up meetings held with various parties from the industry. The issue on which U S WEST specifically provides comments is the methodology for the development of expense factors.

We request that this information be made a part of the record in this matter. The original and three copies of this notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(b)(1) for this purpose. If there are any questions, please call.

Sincerely,



Kenneth Cartmell

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Expense Factors Module - RETAIL User Manual

Version 1.0

October 1998



Market Services And Economic Analysis Organization



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Description

The Expense Factors Module is a spreadsheet developed by U S WEST for developing a number of investment and expense-related factors. These factors are used for calculating costs associated with a number of retail services. The factors developed are divided into two major groups — Investment related and Expense related.

Investment Related Factors

Investment related factors are divided into three categories — Maintenance, Right To Use, and Ad Valorem. The Right To Use and the Ad Valorem categories has only one factor each. The maintenance category has many factors, which are calculated by plant account and appear on the report under four sub divisions — Land & Building, Outside Plant, Central Office Equipment and Station Equipment. The following table lists all Investment Related Factors:

| <u>Category/Account</u> | <u>Factor</u> |
|---------------------------------|--|
| Maintenance | |
| Land & Building | Land & Building |
| Outside Plant | Poles Aerial Cable - Metallic Aerial Cable - Nonmetallic Underground Cable - Metallic Underground Cable - Nonmetallic Buried Cable - Metallic Buried Cable - Nonmetallic Submarine Cable - Metallic Submarine Cable - Nonmetallic Intrabuilding Network Cable Metallic Intrabuilding Network Cable Nonmetallic Aerial Wire Underground Conduit |
| Central Office Equipment | Digital Electronic Operator Systems Radio Systems Digital Circuit Equipment Subscriber pair Gain - Digital Subscriber Pair Gain - Digital (SONET) Other Digital Equipment Other Digital Equipment (SONET) Subscriber Pair Gain - Analog Other Analog Equipment |
| Station Equipment | Channel Term Equipment |
| Right To Use | Switching Right To Use |

Ad Valorem

Ad Valorem

Expense Related Factors

Expense related factors are divided into four categories — Commercial, Directly Attributable, Network Support and Common.

Commercial Factors – are developed for seven product groups. Within each of the seven product groups are factors for Product Management Expense, Sales Expense and Product Advertising Expense. Business Fees is one separate factor.

Network Support Factors – include network administration costs and engineering costs that can be directly identified to the provisioning of a group of services. The level of these costs varies directly with the total volume of the group of services being provided and is not directly dependent on the quantity of any individual service in that group. This cost is often referred to in economic terms as the shared cost. Network Support factors include Network Operations and Network Support Assets.

Directly Attributable Factors – include costs that vary relative to a group or family of services, however, the variability is not directly dependent upon the service family but rather on groups of product families. Although there is a cost causative relationship between the services and these costs, it is not directly a function of any service category. These costs are volume sensitive however, they cannot be completely avoided based on the elimination of any specific service or service family.

Common Factor – include costs for the benefit of the enterprise as a whole. These costs do vary based on the total size of the firm but do not vary based on the size of any group of services or service families. The cost becomes totally avoidable only upon elimination of the entire firm. These costs are sometime referred to as *general overhead costs*. The common factor includes: Executive, Planning, External Relations, Information Management, Legal, Other Procurement, Research & Development and Other General & Administrative expenses.



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The following lists the factors that are developed for Commercial, Network Support, Directly Attributable and Common factors:

| <u>Category/Account</u> | <u>Factor</u> |
|---|--|
| Commercial | |
| Group 1 - Residence | Product Management Sales Product Advertising |
| Group 2 - BUS, Centrex, Pri. Ln., PBX, ISDN, Public, ACS | Product Management Sales Product Advertising |
| Group 3 - Interconnect, Carrier Features, PAL | Product Management Sales Product Advertising |
| Group 4 - Operator Services / DA | Product Management Sales Product Advertising |
| Group 5 - Toll | Product Management Sales Product Advertising |
| Group 6 - Billing & Collection | Product Management Sales Product Advertising |
| Group 7 - Listings, Features, IS, Misc. | Product Management Sales Product Advertising |
| Business Fees | Business Fee |



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Network Support

Network Operations
Network Support Assets

Directly Attributable

General Support Assets
Computers
Uncollectible
Accounting and Finance
Human Resources
Intangibles

Common

Common



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Scope

The Expense Factors Module – Retail, will develop factors for any one of U S WEST's fourteen states and also a U S WEST composite for retail services.

Description of Worksheets

The Worksheet grouping contains buttons that allow the user to quickly go to any of the worksheets used to calculate factors. The use and purpose of each of these buttons/worksheets will now be explained.

Operating Expenses

The operating expense button will take the user to the operating expense worksheet. This is where expenses related to factor development are calculated. In general, expenses for a number of accounts are obtained from company's "books" of U S WEST, specifically, the expenses are obtained from the MR5 worksheet.

Adjustments are sometimes made to these expenses and then a cost savings and inflation amount is added to the expense. This is the basis for the denominator of many factors. From this denominator base, an additional adjustment may be made in calculating the base for the numerator.

What follows is a more detailed explanation of the use of each column within this worksheet. For consistency, the column reference used will be that of Excel's column headings (not the column reference found in row 6 of the worksheet).

Columns A and B, Account Description: Column A shows the name of a group of accounts while column B contains the individual names of specific accounts. For example the first group of accounts found on row 7 is Central Office Switching Expense. The names of the individual accounts contained in that grouping are shown in rows 8 through 12.

Some groups are displayed in bold face. This is done to indicate that it is the account grouping that is used for developing a factor rather than the individual accounts. For example, the first grouping (called Central Office Switching Expense) uses the total expense amount (cell H7) for developing the denominator of various factors.

Column C, Account No. or FRC: For the most part, this column displays the account code associated with the account name displayed in column A. Sometimes that account code will be displayed with a sub account. For example, account 6232.1 will represent a sub account of account 6232. A number shown in parentheses is a field reporting code (FRC). For example, 377 is one of the FRCs for account 6212. The dollar amounts on

this row are for the field reporting code only. It represents just a portion of the entire account.

Column D, EOY '97 Bk. Opr. Exp.: Column D shows the end of year, 1997, booked operating expenses associated with the account name in columns A and B. This data comes directly from the MR5 sheet.

Column E, Adjustments or Not Used: This is the column that is used to make needed adjustments to booked expenses in the development of either the numerator or denominator base. If a particular expense is not used in the development of either a numerator or denominator of a factor, the entire amount is therefore, "not used" and is shown in this column.

Column F, Cost Savings Amount: Expenses may be adjusted for cost savings expected during the duration from the "Base Year" and "Study Year" selected from the menu sheet. This amount is calculated by multiplying the expense of a given account by its corresponding cost savings factor. This factor appears in the "Inflation" worksheet within the module. This sheet can be accessed by selecting the "Cost savings and Inflation Inputs" button found in the "Inputs" grouping on the main menu.

Column G, Inflation Amount: Expenses are adjusted for inflation by applying an inflation factor (found on the Inflation sheet) to the expense. The amount of inflation applied is controlled by the Base and Study Year items selected on the "Inputs" grouping of the menu. The actual inflation used can be user overridden on the Inflation sheet.

Column H, Denominator Base: The denominator base is calculated by adding operating expense for a given account (column D) to the adjustments (in column E) with the cost savings and inflation amounts (in columns F and G, respectively).

Column I, Adjustments or Not Used: This column is used in the development of the numerator base for a number of factors. Note that adjustments to expenses that appear in column E effect both numerator and denominator development (columns H and K). The numerator is calculated by adding the adjustment in column I to the denominator base in column H.

If no numerator is being developed for a given account, the entire amount appearing in the denominator (column H) is "not used" (column I) for the numerator development (column K).

Investments and Capital Costs

The "Investment and Capital Costs" button will take the user to the Investment and Capital Costs worksheet where investments related to factor development are calculated.



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In general, investments for a number of accounts are obtained from U S WEST "books", specifically, the investments come from the MR2A worksheet.

The Investment and Capital Costs worksheet is used in the development of maintenance factors and also for development of other factors by converting the investments into annualized expenses.

What follows is a more detailed explanation of the use of each column within this worksheet. For consistency, the column reference used will be that of Excel's column headings (not the column reference found in row 6 of the worksheet).

Columns A through C, Account Description: Lists the names for a grouping of accounts, individual accounts, or sub account names along with its associated account or field reporting code.

Column D, Account No. or FRC: Lists the account code or field reporting code associated with the corresponding account.

Column E, EOY '97 Book Inv.: Shows the 1997, end of year, booked investments by account. The investment is obtained directly from the MR2A sheet.

Column F, CC/BC Amount: The investment development begins with the application of a current to book (CC/BC) ratio, but only on asset related investments. An asset related (secondary) investment is one that is used in the support of a primary investment. For example, outside plant is a primary investment needed for many products and services. However, it is necessary to invest into special purpose vehicles needed in the construction and maintenance of plant. Therefore, special purpose vehicles are considered an asset-related investment. To calculate the current asset related investment, a CC/BC ratio is applied to the embedded investment to reflect the value in today's dollars.

Column G, Future Use: This column is reserved for future use.

Column H, Not Used: The first half of the Investment and Capital Costs worksheet is to develop the investments for maintenance factors. The second half of the worksheet is used for other factor development. If a particular account is not used specifically to develop a maintenance factor, the investment is "not used" and appears in column H.

Column I, Adjustments: Sometimes it is necessary to make some adjustments to the investments and expenses that are used from the company books when developing factors. For example, buildings in one state that are for corporate use and serve all fourteen U S WEST states, need to be allocated to all states, not just the state where the buildings are located. The calculation of these adjustments can be found on the end of the Investment and Capital Costs sheet under the heading: Adjustment Development.

Column J, Maintenance Factor Base: This column is used in developing the denominator for maintenance factors. It is calculated by summing booked investments, any CC/BC amounts, amounts in the "Future Use" column and any adjustments applicable (columns F through I).

Column K, Adjusted Factor Base: This column is used to calculate an adjusted investment for the development of factors not specific to maintenance.

Column L, Ad Valorem: Used to convert an investment to an annualized expense associated with Ad Valorem (personal property taxes).

Column M, Depreciation Expense: Used to convert an investment to an annualized expense associated with depreciation expense (the repayment of capital).

Column N, Cost of Money Expense: Used to convert an investment to an annualized expense associated with the cost of money (interest for the financing of capital).

Column O, Income Tax Expense: Used to convert an investment to an annualized expense associated with Income Taxes.

Column P, Total Exp.: Used to sum the annualized expense associated with Ad Valorem, Depreciation expense, Cost of Money and Income Tax expense (columns O through L).

Asset Related Expenses

Clicking on the "Asset Related Expenses" button takes you to the asset related expenses worksheet where secondary investments are developed. As explained earlier, an asset related (secondary) investment is one that is used in the support of a primary investment. For example, outside plant is a primary investment needed for many products and services. However, it is necessary to invest into special purpose vehicles needed in the construction and maintenance of plant. Therefore, special purpose vehicles are considered an asset-related investment. To calculate the current asset related investment, a CC/BC ratio is applied to the embedded investment to reflect the value in today's dollars. This worksheet develops these secondary investments and also converts them into annualized expenses.

What follows is a more detailed explanation of the use of each column within this worksheet. For consistency, the column reference used will be that of Excel's column headings (not the column reference found in row 6 of the worksheet).

Columns A through D, Account Description: Lists the accounts and groups of accounts being developed as asset related expenses.

Column E, Account No.: Lists the account code associated with the account name in columns A through D.

Column F, EOY '97 Booked Investments: Shows the 1997, end of year, booked investments by account. Investments are obtained directly from the MR2A sheet.

Column G, Other Studies: Sometimes a portion of the investment in a number of accounts is already being recovered in other cost studies. This column shows the dollar amounts that are already being recovered elsewhere and therefore should be excluded here.

Column H, Adjustments: Sometimes it is necessary to make some adjustments to the investments that are used from the company books when developing factors. For example, buildings in one state that are for corporate use and serve all fourteen U S WEST states, need to be allocated to all states, not just the state where the buildings are located.

Column I, CC/BC Adjustment Amount: This calculates an adjustment to the original investment amount (column F) using a CC/BC (Current Cost to Book Cost) ratio to reflect that value of the asset in today's dollars.

Column J, Future Use: This column is reserved for future use.

Column K, Investment Factor Base: Calculates the total investment that is used as the basis for a number of factors. It is calculated by adding the end of year, 1997, booked investment plus the investment amounts of other studies, plus Adjustments, CC/BC amount and any amount appearing in the Future Use column.

Column L, Investment Factor Base: Same as column K.

Column M, Ad Valorem: Used to convert an investment to an annualized expense associated with Ad Valorem (personal property taxes).

Column N, Depreciation Expense: Used to convert an investment to an annualized expense associated with depreciation expense (the repayment of capital).

Column O, Cost of Money Expense: Used to convert an investment to an annualized expense associated with the cost of money (interest for the financing of capital).

Column P, Income Tax Expense: Used to convert an investment to an annualized expense associated with Income Taxes.

Column Q, Associated Operating Expense: These are operating expenses that have been developed on the Operating Expense worksheet. They are being pulled over onto

the Asset Related Expense worksheet so that total expenses associated with a given account can be totaled.

Column R, Total Exp.: This is the total of expense associated with Ad Valorem, depreciation expense, cost of money and income tax expense along with associated operating expenses.

Commercial Marketing

Clicking on the "Commercial Marketing" button takes the user to the "Commercial Marketing Expense – Section E" worksheet. Commercial marketing expense is developed by taking end of year expenses from the Cost Allocation Accounting System (CAAS), and adjusting them into product groups.

Columns A and B, Account Description: This column lists product groups one through seven. Under each group are Product Management, Sales and Advertising.

Column C, Account No.: This column lists the account code associated with the account name shown in column B.

Column D, EOY Bk. Opr. Exp: This column shows the end of year book operating expense associated with product group by account.

Column E, Cost Savings Amount: Expenses may be adjusted for cost savings expected during the duration from the "Base Year" and "Study Year" selected from the menu sheet. This amount is calculated by multiplying the expense of a given account by its corresponding cost savings factor. This factor appears in the "Inflation" worksheet within the module. This sheet can be accessed by selecting the "Cost savings and Inflation Inputs" button found in the "Inputs" grouping on the main menu.

Column F, Inflation Amount: Expenses are adjusted for inflation by applying an inflation factor (found on the Inflation sheet) to the expense. The amount of inflation applied is controlled by the Base and Study Year items selected on the "Inputs" grouping of the menu. The actual inflation used can be user overridden on the Inflation sheet.

Column G, Numerator Base: The numerator base is the sum of EOY Book Operating Expenses (Column D), Cost Savings Amount (Column E), and Inflation Amount (Column F).

Column H, EOY Bk. Opr. Exp: End of Year Book Operating Expenses is a direct input into the Expense Factors Module. It comes from the Adjustment sheet under "Direct Miscellaneous Inputs, Commercial Marketing (Sec. E) – Denominator". This data is obtained from the Cost Allocation Accounting System (CAAS). It represents annualized expenses (Cost of Money, Depreciation, Income Tax, Maintenance and Ad Valorem)

associated with the investments that support the individual product group. This denominator includes only directly assigned expenses associated with each product.

Column I, Adjustment: The annualized End of Year Book Operating Expenses for commercial marketing factors are obtained from CAAS and are not considered forward looking. For study use it was necessary to calculate an adjustments factor that the commercial marketing factor denominator could be multiplied by to bring the expenses to a forward looking level. This was done by dividing total directly assigned expenses by total commercial marketing expenses.

Column J, Denominator Base: The denominator base is the sum of EOY Book Operating Expenses (column H) and the Adjustment amount calculated in column I.

Denominator Development

Clicking on the Denominator Develop button will take the user to the Denominator Development – Section A2 worksheet. This is where the denominator for Network Support, Directly Attributable and Common factors are developed.

The development is divided into two groups: Operating related expenses and Investment related expenses. The operating expenses are developed in Section B of the Expense Factors module. The investment related expenses are developed in Sections C and D of the Expense Factors Module (with the exception of Ad Valorem, which is from Section B). The sum of the operating and investment related expenses are shown in the entry labeled Total Direct Expenses.

The next item shown on the Denominator Development – Section A2 sheet is Total Commercial Marketing Expense, which is obtained from the Adjustment sheet as a direct input. This denominator includes all expenses associated with a specific product group. The Commercial Marketing Denominator Ratio is developed by dividing the Total Directly Attributed Expense by the Total Commercial Marketing Expense. This ratio is used to adjust the Total Commercial Marketing Expense, which comes from CAAS, to a forward-looking level to align with the total directly assigned expenses, which are considered forward-looking.

All expenses associated with the marketing expenses are from the Cost Allocation Accounting System (CAAS) results.

Factor Development

The “Factor Development – Section A1” sheet is where all the initial worksheets in developing operating expenses and investments are tied together. It shows how various factors are developed and documents what amounts are used in the numerator and denominator when developing a factor. Where appropriate, power, subscriber line testing, and interoffice testing factors were included in the overall factor development.

Also included on this sheet is the source of each piece of information used to provide greater detail of the denominator and numerator of each factor.

Summary

The Summary sheet (as the name implies) provides a summary of all the factors that are calculated within the Expense Factors Module. The factors are divided between Investment Related Factors and Expense Related Factors. That is, factors that were developed to be applied to investments are summarized in the Investment Related section of the Summary sheet (page 1) while factors developed to be applied to expenses are summarized in the "Expense Related Factors" section (page 3).

On the Investment Related Factors page, the major Expense Related Account Codes and Investment Related Account Codes used to develop the factor are shown. Also for reference purposes, the predominate Field Reporting Code (FRC) is shown. The last column on the page shows the factor for each account for a given state.

The Expense Related Factors page is made up of Commercial, Network Support, Directly Attributable and Common expense factors. Within each of these groups are shown the factor's name, the accounts that were used to develop the factor and the factor itself.

For details to the development of these factors, refer to the "Factor Development – Section A1" sheet within the Expense Factors Module workbook.

Methodology

Investment Related Factors

Investment related factors are designed to be applied to investments. They are used to calculate a recurring annual expense associated with a given investment. For example, a particular service may require the use of central office switching equipment where hundreds of thousands of dollars are invested. Once the equipment is placed in service, it will require some expenditures in order to maintain the equipment over the life of the plant. For every dollar of investment, a percentage of annual maintenance expense can be calculated by multiplying the investment in central office switching times its associated maintenance factor.

There are three main categories of investment related factors that are calculated in the Expense Factors Module. They are Maintenance, Switching Right To Use and Ad Valorem.

Maintenance Factors

Overview

There are twenty five maintenance factors, as identified in the Factor Summary worksheet, grouped into four different categories — land and building, outside plant, central office equipment and station equipment. Each of these maintenance factors are developed on a state by state basis using expenses and investments relative to the account under study.

Maintenance factors are developed by taking the adjusted levels of 'M' expense dollars and dividing them by adjusted investment associated with a particular account. Power, subscriber line testing and trunk testing factors are added to the applicable accounts to get the final maintenance factor. Maintenance expense is calculated by multiplying the maintenance factor times total investment for an account under study.

Numerator Development

The numerator used to develop the maintenance factor or 'M' expense dollars is taken directly from the Company MR5 report which is displayed as worksheet 'MR5' in the Expense Factors Module. The 'MR5' worksheet splits each company expense account into more than one category in order to properly calculate a maintenance factor associated with a particular account. For example, account 6212 Digital Electronic Expense identifies individual field reporting codes and the expense associated with each code. The account is further split with the Right To Use expenses identified separately.

The expense dollars associated with the example are carried forward from the 'MR5' worksheet to the 'Operating Expense - Section B' worksheet. The 'Operating Expense - Section B' worksheet is divided into three sections — account information, denominator base development and numerator base development.

The first section, account information, provides a description of the account (account name), the account code, and the End Of Year (EOY) MR5 expense dollars from the 'MR5' worksheet. In the 'Operating Expense - Section B' worksheet, the 6212 expenses are identified as 'Digital Electronic Expense' and 'Digital Electronic Expense - RTU'. Adjustments to the Digital Electronic Expense account are developed in the Adjustment Development area of section B. The 'Digital Electronic Expense - RTU' account 6212 (377M) dollars are used to develop the Switching Right To Use (RTU) factor.

The second section defines the denominator base used to calculate the Network Support, Directly Attributable, and Common factors later used in the 'Denominator Development - Section A2' worksheet. The denominator base is calculated by adding together the initial investment in a particular account with a cost savings and an inflation amount. The cost savings and inflation amounts are used to compensate for expected cost savings or increases over the time period from the base and study year that is selected from the main menu.

The third section defines the maintenance numerator base. This section removes expenses associated with unrelated field codes and expenses identified in other direct studies. The result is carried to the 'Factor Development - Section A1' worksheet.

Adjustments - Maintenance

Some Nonrecurring Cost (NRC) expense activities are accounted for on the books using the 'M' (maintenance/repair and rearrangements/changes) type codes associated with maintenance. These work activities take place at the same time as Service Order activity and are recovered at that time. The adjustments to the maintenance factors for these expenses are identified in "Operating Expenses – Section B" worksheet under the Adjustment development area.

Identified NRC work activities that are accounted for in the M codes are in the following areas: Recent Change Memory Administration Center (RCMAC), Special Services Center (SSC), Business Customer Service Center (BSCS), Local Assignment Center (LAC), Loop Provisioning Center (LPC), Local Service Order Dispatch (LRAC) and Frameperson. To adjust for these situations, when they occur, the following procedures have been included in the maintenance factor development.

RCMAC Adjustments

Responsibility codes were identified for all people involved with the RCMAC activities. Employee hours reported to these responsibility codes are retained for a four-month period at which time they are removed from the database. Four months of data were collected from the Employee Information Center Database using the Labor file. These hours included only Field Reporting Code (FRC) 377M effort and were multiplied by the appropriate Plant Clearance Labor Rates. These are the rates used to clear reported hours as expense to the appropriate 'M' (maintenance/repair and rearrangements/changes) type of FRC codes. The rates come from the Corporate Table System. A percentage was developed based on the proportion of these dollars to the total expense dollars minus Right To Use fees charged to FRC 377 M, account 6212, during the same period of time. The total FRC 377M expense dollars are from the General Ledger Journal file. The resulting percentage was multiplied against the total FRC 377M, account 6212, minus Right To Use fees. The result will be carried to the Expense Factors Module Adjustment Sheet and finally removed from the FRC 377M, account 6212, in Section B, Column I. This process was completed for each state.

SSC, BCSC, LAC, LPC, LRAC and Frameperson Adjustments

The Service Order Activity of these functions was accumulated from the Service Order Activity Tracking data base. This was completed on a state specific basis. The time estimates associated with each activity in the NRC studies were multiplied by the occurrences for the activity in question to get the total annual hours charged to that activity. The result is multiplied by the prorate factor for this activity. The prorate factor is used to determine what share of the identified hours belong to which field reporting codes. The prorate factor came from the Report Management & Distribution System (RMDS). Once this has been determined, the hours are multiplied by the appropriate Plant Clearance Labor Rates. The result of this calculation is carried to the Expense Factors Module Adjustment Sheet and finally removed from the appropriate 'M' type of FRC account in Section B, Column I.

An adjustment for operating rents expense was also developed for each state. Building operating rents expense associated with buildings used to support more than one state are allocated to the supported states. This adjustment is based on the Rent Compensation Study. It takes into account perceived usage in all fourteen states, as well as employee head count and what work is done in each state by the employee body.

Adjustments for expense associated with unrelated field reporting codes not associated with maintenance factors as well as adjustments to remove Right To Use (RTU) field codes are also identified here.

Denominator Development

The denominator used to develop the maintenance factor consists of investment dollars associated with the account under study. Continuing our example by using account 2212,

the investment dollars are obtained using data from the Company's MR2A report which is displayed as worksheet MR2A in the Expense Factors Module. As can be seen, the account dollars are broken down by field reporting codes (FRC). The investment dollars associated with the example are carried forward to the 'Investments and Capital Costs - Section C' worksheet.

The 'Investments and Capital Costs - Section C' worksheet is divided into three sections — Account information (columns A – E), Maintenance Factor Base (columns F – J) and Total Expense (columns K – P). The first section identifies the account description (account name), account code and end of year (EOY) book investment expenses. The second section develops the maintenance factor denominator or investment base. The third section, which converts investments to expenses, is not used for maintenance factor development but for the denominator of other expense factors.

The EOY investments carried forward from the 'MR2A' worksheet are brought to study year using appropriate inflation. In addition, investments associated with other direct studies are removed to complete the development of the maintenance denominator. The result is carried to the 'Factor Development - Section A1' worksheet.

Factor Development

The 'Factor Development - Section A1' worksheet divides the adjusted account expense by the adjusted account investment. If appropriate: power, subscriber line testing and trunk testing expense are then added to the quotient.

The power factor consists of account 6531 power expense adjusted with cost savings and inflation divided by the adjusted investment associated with accounts 2211, 2212, 2215, 2220, 2231, 2232 and 2351.

The numerator used to develop the power expense factor or account 6531 is directly from the Company MR5 report which is displayed in worksheet 'MR5' in the Expense Factors Module. These power expense dollars are carried forward to the 'Operating Expenses - Section B' worksheet and adjusted with cost savings and inflation factors to bring the expenses to study year. The result is carried to the 'Factor Development - Section A1' worksheet numerator column.

The denominator used to develop the power expense utilizes the total adjusted 2211, 2212, 2215, 2220, 2231, 2232 and 2351 account codes on the worksheet 'Investments and Capital Costs - Sec C'. The result is carried to the 'Factor Development - Section A1' worksheet denominator column.

The 'Factor Development - Section A1' worksheet divides the adjusted power expense or numerator by the adjusted account investment or denominator. The quotient is the



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Power Factor that is added to the maintenance factor for accounts 2211, 2212, 2215, 2220, 2231, 2232 and 2351 on worksheet 'Factor Development - Section A1'.

The Subscriber Line Testing consists of the 6533 account FRC 41T and 41M testing expense adjusted with cost savings and inflation divided by the adjusted investment associated with accounts 2421, 2422, 2423, 2424 and 2426.

The numerator used to develop the subscriber line testing expense factor or account 6533 FRC 41T and 41M is directly from the Company MR5 report which is displayed in worksheet 'MR5' in the Expense Factors Module. These Subscriber Line Testing expense dollars are carried forward to the 'Operating Expenses - Section B' worksheet and adjusted with cost savings and inflation factors to bring the expenses to study year. The result is carried to the 'Factor Development - Section A1' worksheet numerator column.

The denominator used to develop the Subscriber Line Testing expense utilizes the total adjusted 2421, 2422, 2423, 2424 and 2426 account codes on the worksheet 'Investments and Capital Costs - Sec C'. The result is carried to the 'Factor Development - Section A1' worksheet, denominator column.

The 'Factor Development - Section A1' worksheet divides the adjusted Subscriber Line Testing expense or numerator by the adjusted account investment or denominator. The quotient is the Subscriber Line Testing Factor that is added to the maintenance factor for accounts 2421, 2422, 2423, 2424 and 2426 on worksheet 'Factor Development - Section A1'.

The Interoffice Testing consists of account 6533 FRC 14T testing expense adjusted with cost savings and inflation divided by the adjusted investment associated with accounts 2231, 2232, 2362, 2421, 2422, 2423, 2424 and 2426.

The numerator used to develop the Interoffice Testing expense factor or account 6533 FRC 14T is directly from the Company MR5 report which is displayed in worksheet 'MR5' in the Factor Module. These Interoffice Testing expense dollars are carried forward to the 'Operating Expenses - Section B' worksheet and adjusted with cost savings and inflation factors to bring the expenses to study year. The result is carried to the 'Factor Development - Section A1' worksheet, numerator column.

The denominator used to develop the Interoffice Testing expense utilizes the total adjusted 2231, 2232, 2362, 2421, 2422, 2423, 2424 and 2426 account codes on the worksheet 'Investments and Capital Costs - Sec C'. The result is carried to the 'Factor Development - Section A1' worksheet, denominator column.

The 'Factor Development - Section A1' worksheet divides the adjusted Interoffice Testing expense or numerator by the adjusted account investment or denominator. The

quotient is the Interoffice Testing Factor that is added to the maintenance factor for accounts 2231, 2232, 2362, 2421, 2422, 2423, 2424 and 2426 on worksheet 'Factor Development - Section A1'.

Switching Right To Use (RTU) - Factor

The Switching Right-To-Use (RTU) factor estimates the expensed RTU switching fees that make up a portion of the annual costs associated with digital switches. The factor numerator is based on the field reporting code (FRC) of 377M (in Account 6212 Digital Electronic Expense) and expenditure type codes of 61A (upgrades of operating system RTU), 61C (recurring RTU fees), and 61F (upgrades of application RTU). The denominator consists of the ending balance for FRC 377C (in Account 2212, Digital Electronic Switching).

Ad Valorem

The Ad Valorem (Property) Tax factor is used to provide an estimate of the Ad Valorem tax costs that are associated with investments. It was developed for use in estimating the total operating expense associated with central office equipment, public coin equipment, and outside plant equipment. The data sources utilized for this are (numerator) Account 7240.1 Property Taxes and (denominator) Account 2001 Total Telephone Plant in Service.

Expense Related Factors

The expense related factors are grouped into four categories – Commercial, Network Support, Directly Attributable, and Common.

Commercial

There are several factors that are developed in this category called Commercial. They are: Product Management Expense, Sales Expense, Product Advertising Expense, and Business Fees or (Other Operating Taxes). The three Commercial Marketing factors listed above are one of several product groups used to more accurately reflect the costs of Commercial Marketing as we move more into a competitive world. The application of the factors will be applied to direct expense. This was accomplished by providing Commercial Marketing factors for product lines, instead of overall average factors. Not all product lines will have their own factors, but were combined into Product Groupings.

A product grouping is a weighting of individual Marketing expense factors by service category used in the Cost Allocation Accounting System (CAAS). The product groupings were created by the factors group taking into consideration the level of actual expenses and like products of each service category.

The direct operating expenses, product management, sales expenses, and product advertising were used from the Cost Allocation Accounting System results. Within CAAS, separate studies and time reporting are done to determine the percentage of

Product Management and Sales expenses associated with each product. This is done by obtaining a list of responsibility codes and employee names for the function code.

The product groupings are a weighting of one or more products within a single group. The CAAS output is currently in twenty major groupings. The twenty major product lines were combined into seven groups based on product similarity and size of the factor. The revenue for each product was used for the weighting of each of the twenty product groups into seven product groupings. The revenue weightings were multiplied by each individual product factor within a grouping to obtain one factor for each product grouping.



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The seven product groups for Product Management, Sales, and Advertising are:

- Group 1 – Residence
- Group 2 – BUS, Centrex, Pri. Ln., PBX, ISDN, Public, ACS
- Group 3 – Interconnect, Carrier Features, PAL
- Group 4 – Operator Services / DA
- Group 5 – Toll
- Group 6 – Billing & Collection
- Group 7 – Listings, Features, IS, Misc.

Product Management Expense

Product Management Expense, account 6611: Product management includes 1) Rate and Tariff - Development which are the costs of providing new or revised tariff offerings, making studies in support of specific dockets and to identify and analyze costs for regulatory activities and 2) Market Forecast - Management Administration and Analysis which are the costs associated with analyzing all forecasts of current and future market conditions, presenting a detailed customer profile, establishing and tracking revenue objectives, as well as performing basic office services. The expenses for this factor can be found in Section B, Operating Expenses. These expenses are also adjusted with cost savings and inflation factors to bring expenses to study year.

Sales Expense Factor

Sales Expense, account 6612: Included in this factor are costs incurred with performing sales contact work, servicing and implementation activities for the purpose of selling products and services to accounts in a particular market or segment. The expenses for this factor can be found in Section B, Operating Expenses. These expenses are also adjusted with cost savings and inflation factors to bring expenses to study year.

Product Advertising Expense Factor

Product advertising expense, account 6613: Includes costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services. This excludes non product related advertising, such as corporate image, stock and bond issue and employment advertisements, which is included in the appropriate functional accounts. The expenses avoided can be found in Section B, Operating Expenses.

Business Fees

The Business Fees factor estimates the expenses associated with other operating taxes. The factor numerator is based on account 7240 (Operating Other Taxes), specifically 7240.2 through 7240.9. (Reference Factor Development - Section A1). The subaccounts of .2 through .9 represent gross receipts taxes, cost of franchises, capital stock taxes, superfund taxes and other taxes. The denominator consists of the Total Direct Expenses. (Reference Denominator Development - Section A2).

Adjustments

The purpose of this adjustment is to more accurately reflect the cost of Commercial Marketing for Retail services. This was accomplished by providing Commercial Marketing expenses by product lines. The expenses for Product Management, Sales and Advertising are from the Cost Allocation Accounting System (CAAS).

Since the Product Management, Sales, and Advertising expenses from the MR5 report are for all products, an adjustment to the MR5 report was required to provide expenses for Retail services. The CAAS system was used to replace the MR5 in calculating marketing expenses associated with individual products for Product Management, Sales and Advertising.

The factor module Adjustments worksheet is where the Product Management, Sales and Advertising operating expenses are adjusted for Retail services. The amount to be used is the expenses for Retail services from the CAAS reports. The actual amount is subtracted from the "Amount to be Used" to calculate the adjusted amount that is used in the Operating Expenses - Section B worksheet, adjustments or not used column. This adjustment removes marketing expenses for all products other than the specific Retail service being studied and is used to calculate the numerator.

The denominator needs to be adjusted for the same reason as the numerator. To correctly calculate a factor, the expenses that are represented in the numerator must correspond to what is included in the denominator. Therefore, the denominator must include only expenses associated with Retail services and directly assigned expenses that the factor is applied to. The adjustment is to include only the direct expenses in the denominator, since the factor is applied to directly assigned expenses. The type of expenses are shown on the Denominator Development - Section A2 worksheet. A summary of these expenses include Depreciation, Cost of Money, Income Taxes, Maintenance, and Ad Valorem or property taxes. The expenses listed are provided on a total product basis in the CAAS report for the Carrier Access (Feature Groups) product line.

Since only direct expenses are required for the denominator, the total product expenses listed above needed to be adjusted to reflect only direct expenses. The following adjustments were made to the total product expenses to determine the direct expenses:

1. The total product depreciation expenses were split between directly assigned expenses (or primary) and secondary expenses. This was done by separating the Field Reporting Codes (FRC) that are associated with the directly assigned depreciation investment and the FRC's that are associated with investments included in the factors. The depreciation expenses associated with the directly assigned depreciation investments were included in the denominator.

2. The percentage of directly assigned depreciation expense to the total product depreciation expenses was used to calculate the Cost of Money and the Income Tax directly assigned expenses.
3. The total product maintenance expenses were split between directly assigned expenses (or primary) and secondary expenses. This was done by separating the FRC's that are associated with the directly assigned maintenance and the FRC's that are associated with maintenance that is included in the factors. The maintenance expenses associated with the directly assigned investments were included in the denominator.
4. The total product plant in service was split between directly assigned investments (or primary) and secondary investments. This was done by separating the FRC's that are associated with the directly assigned investments and the FRC's that are associated with investments included in the factors. The percentage of directly assigned investments to the total product investments was used to calculate the Ad Valorem directly assigned expenses. The Ad Valorem expenses associated with the directly assigned investments were included in the denominator.

The above expenses were summed and included in the Adjustments worksheet, under the Miscellaneous Direct Inputs.

Network Support

There are two factors that make up the Network Support section, they are: Network Operations and Network Support Assets. Each of these factors are developed on a state by state basis in like manner utilizing expenses and investments relative to the account under study.

Numerator Development

Network Operations

The numerator used to develop the Network Operations expense factor is taken directly from the Company MR5 report which is displayed as worksheet 'MR5' in the Expense Factors Module. The expense dollars associated with the network operations are carried forward from the 'MR5' worksheet to the 'Operating Expense - Section B' worksheet. Section B multiplies the EOY dollars for accounts 6532, 6534 & 6535 by productivity and inflation to bring the expenses to study year. The result is carried to the 'Factor Development - Section A1' worksheet. The following is a description of what is included in each account:

Account 6532, includes costs incurred in network administration. This includes such activities as controlling traffic flow, administering traffic measuring and monitoring devices, assigning equipment and load balancing, collecting and summarizing traffic data, administering trunking and assigning interoffice facilities and circuit layout work.

Account 6534, includes costs incurred in the general administration of plant operations. This includes supervising plant operations, planning, coordinating and monitoring plant operations; and performing staff work such as developing methods and procedures, preparing and conducting training and coordinating safety programs.

Account 6535, includes costs incurred in the general engineering of the telecommunications plant which are not directly chargeable to an undertaking or project. This includes developing input to the fundamental planning process, performing preliminary work or advance planning in connection with potential undertakings, and performing special studies of an engineering nature.

Adjustments – Network Operations

An adjustment to Account 6532 (Network Administration Expense) is done to remove the expenses associated with non-recurring functions from Account 6532 (specifically sub-accounts 6532.2 and 6532.3). Since these non-recurring expenses are recovered in Non-Recurring Cost Studies, these same expenses should not be included in the calculation of cost factors used in Recurring Cost Studies.

To accomplish the adjustment to 6532.2 (Central Office Administration), a percentage was developed based on the proportion of the non-recurring expenses (functions) to the total in Account 6532.2. The percentage is then used against the current annual Account 6532.2 expenses to arrive at a dollar amount which is representative of the non-recurring expenses (functions).

The adjustment amount for 6532.3 (Circuit Assignment) is simply the total 6532.3 sub-account. Since the non-recurring expenses make up this total sub-account, the total is used as the adjustment amount.

The total adjustment is the dollar amount shown on the Adjustment worksheet (identified as Operating Expenses – Sec. B, Network Administration) of the Expense Factors Module. This adjustment amount is then carried to the Operating Expenses – Section B worksheet where it is removed from Account 6532.

Network Support Assets

The numerator used to develop the Network Support Assets expense factor is taken directly from the Company MR2A report which is displayed as worksheet 'MR2A' in the Expense Factors Module. The investment dollars associated with the network support

assets are carried forward from the 'MR2A worksheet to the 'Asset Related Expense - Section D' worksheet. Section D multiplies the EOY dollars for accounts 2112, 2113, 2114, 2115 & 2116 by a CC/BC factor. These investments are then multiplied by Ad Valorem Tax, Cost of Money, Depreciation and Income Tax to acquire the expenses associated with the investments. The sum of these 5 accounts is then carried to the 'Factor Development - Section A1' worksheet. The following is a description of what is included in each account:

Account 2112, Motor Vehicles includes the original cost of motor vehicles of those types which are designed and routinely licensed to operate on public streets and highways.

Account 2113, Aircraft includes the original cost of company owned aircraft and any associated equipment and furnishing installed as an integral part of the aircraft.

Account 2114, Special Purpose Vehicles includes the original cost of special purpose vehicles. Special purpose vehicles are self-propelled and are therefore independent upon another vehicle's engine for power.

Account 2115, Garage Work Equipment includes the original cost of tools and equipment used to maintain items included in Accounts 2112, 2113, 2114. Items such as Air compressors, car hoists, garage jacks, gasoline pumps etc.

Account 2116, Other Work Equipment includes the original cost of power-operated equipment, general-purpose tools and other items of work equipment.

The investment in these accounts is converted to expenses to calculate a factor. This is done by multiplying the investment dollars by an Ad Valorem factor, and capital cost factors (Cost of Money, Income Taxes and Depreciation). These investments were also adjusted by a Current Cost to Book Cost ratio, to bring expenses to study year.

Directly Attributable

There are several factors that make up the Directly Attributable section, they are: General Support Assets, General Purpose Computers, Uncollectibles, Accounting and Finance Expense, Human Resources Expense, and Intangibles. Each of these factors is developed on a state by state basis in like manner utilizing expenses and investments relative to the account under study.

General Support Assets

The numerator used to develop the General Support Assets expense factor is taken directly from the MR2A worksheet and appears on the worksheet titled 'Asset Related Expense - Section D'. The only account not adjusted in this factor is Inventories Account 1220, and these appear in Asset Related Expenses - Section D. Accounts 2111 (Land),

2121 (Buildings), 2122 (Furniture & Artwork), 2123 (Office Equipment), 2681 (Capital leases) & 2682 (Leasehold Improvements) have however been adjusted from what is shown on the company books. This amount is shown under the column titled adjustments.

The booked investment minus the amount removed from the columns titled 'other studies' and 'adjustments' are then multiplied by a CC/BC ratio. They are then multiplied by Capital Costs and Ad Valorem Tax to acquire expenses associated with each investment. The following is a description of what is included in each account:

Account 2111, Land includes the original cost of leaseholds, easements, and similar rights in land having a term of more than one year used for purposes other than the location of outside plant or externally mounted central office equipment.

Account 2121, Buildings includes the original cost of buildings, and the cost of all permanent fixtures, machinery, appurtenances and appliances installed as a part thereof. It shall include costs incidental to the construction or purchase of a building and to securing possession and title.

Account 2122, Furniture & Artwork includes the original cost of furniture in offices, storerooms, shops and all quarters. It also includes the cost of artwork, e.g. paintings, prints, wall hangings etc.

Account 2123, Office Equipment includes the original cost of office equipment in offices, shops and all other quarters. Account 1220, Inventories includes the cost of material and supplies held in stock and inventories of goods held for resale or lease.

Account 2681.1,9, Land and Buildings and Other are: amounts recorded in this account at the inception of a capital lease shall be equal to the original cost, if known, or to the present value not to exceed fair value, at the beginning of the lease term, of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs to be paid by the lessor, together with any profit thereon.

Account 2682.1, Land & Buildings, this account shall include the original cost of lease hold improvements made to telecommunications plant held under a capital or operating lease, which are subject to amortization treatment. The investment in these accounts are converted to expenses to calculate a factor. This is done by multiplying the investment dollars by an Ad Valorem factor, and Capital Costs (Cost of Money, Income Taxes and Depreciation) where applicable. These investments were also adjusted by a Current Cost to Book Cost ratio, to bring expenses to study year.

Adjustments – General Support Assets

The investment dollars in each account were reallocated (adjusted) using the Rent Compensation Study, done by the Accounting Standards Group. It takes into account perceived usage in all fourteen states, as well as employee head count and what work is done in each state by the employee body. The total re-allocated investment by state is divided into the USWC investment to calculate a percent. That percent is multiplied times the USWC investment and distributed to the states. These adjustments are then what is shown under the 'adjustment' column. The sum of these accounts is then carried forward to the 'Factor Development - Section A1' worksheet.

General Purpose Computers

The numerator used to develop the General Purpose Computers expense factor is taken directly from the MR2A and MR5 worksheet and appears on the worksheet titled 'Asset Related Expense - Section D'. The following is a description of what is included in each account:

Account 2124, General Purpose Computers includes the original cost of computers and peripheral devices which are designed to perform general administrative information processing activities.

Account 2681.3, Capital Leases-Computers. The amounts recorded in this account at the inception of a capital lease shall be equal to the original cost, if known, or to the present value not to exceed fair value, at the beginning of the lease term, of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs to be paid by the lessor, together with any profit thereon.

Account 2682.2 Computer Leasehold Improvements, this account shall include the original cost of lease hold improvements made to telecommunications plant held under a capital or operating lease, which are subject to amortization treatment. The investment in these accounts is converted to expenses to calculate a factor. This is done by multiplying the investment dollars by an Ad Valorem factor, and Capital Costs (Cost of Money, Income Taxes and Depreciation) where applicable. These investments were also adjusted by a Current Cost to Book Cost ratio, to bring expenses to study year where applicable.

Adjustments – General Purpose Computers

Account 2124 has been adjusted from what is shown on the books of the company. This amount is shown under the column titled adjustments. The booked investment minus the amount removed from the columns titled 'Other Studies' and 'Adjustments' are then multiplied by a CC/BC ratio. They are then multiplied by Capital Costs and Ad Valorem Tax to acquire the expenses associated with computer investment.

The computer investment dollars were reallocated (adjusted) using the Rent Compensation Study. It takes into account perceived usage in all fourteen states, as well

as employee head count and what work is done in each state by the employee body. The total reallocated investment by state is divided into the USWC investment to calculate a percent. That percent is multiplied by the USWC investment and distributed to the states. These adjustments are then what is shown under the 'Adjustment' column. The sum of these accounts is then carried forward to the 'Factor Development - Section A1' worksheet. This factor also includes account 6124 Computer Expense from the books of the company (MR5): These expenses carry over to the 'Asset Related Expense - Section D'. The expenses are actually calculated under 'Operating Expenses - Section B'.

The final dollars included in this factor are accounts 2681.3 (Capital Leases Computers) and account 2682.2 (Leasehold Improvements). They are carried over from the company report MR2A and calculated under 'Asset Related Expense - Section D'. These investments have been adjusted using the same procedure as described for computer investment 2124. They have been multiplied by Ad Valorem, Income Tax, Cost of Money and Depreciation factors.

Uncollectibles

The numerator used to develop the Uncollectible factor is taken directly from the Company MR5 report which is displayed as worksheet 'MR5' in the Expense Factors Module. The expense dollars associated with uncollectibles are carried forward from the 'MR5 worksheet to the 'Operating Expense - Section B' worksheet. Section B then carries these dollars straight to the sheet named 'Factor Development - Section A1' worksheet for final development. The following is a description of what is included in each account:

Account 5280.8 Uncollectible Non-regulated Revenues this account shall be charged with amounts of non-regulated revenues previously credited to sub accounts which have been proved to be uncollectible.

Account 5301.1 Interstate - End User includes accruals to a reserve to provide for anticipated right-offs of interstate revenue. Amounts are debited herein and Account 1181.11 is credited.

Account 5301.2 Intrastate - End User includes accruals to a reserve to provide for anticipated right-offs of intrastate revenue. Amounts are debited herein and Account 1181.12 is credited.

Accounts 5301.3 Equal Access / Network Reconfiguration - Direct Charge includes any realized uncollectible revenues due from AT&T for the provisioning of equal access.

Account 5301.4 Interstate - Carrier Access Services (Uncollectibles) include the accruals to the reserve to provide for the write-offs of uncollectible interstate operating revenues arising from Carrier Access Billing System (CABS) services.

Account 5301.5 Intrastate - Carrier Access Services (Uncollectibles) include the accruals to the reserve for the write-offs of uncollectible intrastate operating revenues arising from CABS services.

Account 5302 Uncollectible Revenue Other - this account shall be charged with amounts concurrently credited to account 1190, Other Accounts Receivable, or to Account 1191, Accounts Receivable Allowance - Other, when such allowance is maintained.

Accounting and Finance Expense

The numerator used to develop the Accounting & Finance expense factor is taken directly from the Company MR5 report which is displayed as worksheet 'MR5' in the Expense Factors Module. The expense dollars associated with the Accounting & Finance expenses are carried forward from the 'MR5' worksheet to the 'Operating Expense - Section B' worksheet. Section B multiplies the EOY dollars for account 6721 by productivity and inflation to bring the expenses to study year. The result is carried to the 'Factor Development - Section A1' worksheet.

Account 6721, Accounting and Finance Expense, includes the costs incurred in providing accounting and financial services.

Human Resources Expense

The numerator used to develop the Human Resource expense factor is taken directly from the Company MR5 report which is displayed as worksheet 'MR5' in the Expense Factors Module. The expense dollars associated with the Human Resource Expenses are carried forward from the 'MR5' worksheet to the 'Operating Expense - Section B' worksheet. Section B multiplies the EOY dollars for account 6723 by productivity and inflation to bring the expenses to study year. The result is carried to the 'Factor Development - Section A1' worksheet.

Account 6723, Human Resources Expense, includes the costs incurred in performing personnel administration activities such as Equal Employment Opportunity and Affirmative Action Programs, General Employment Services, Employee data for forecasting, planning and reporting etc..

Intangibles

The numerator used to develop the Intangibles (account 2690) factor are taken directly from the Company MR2A report and carried over to 'Asset Related Expenses - Section

D. These investment dollars are multiplied by Cost of Money and Income Tax to develop expenses associated with these investments. The result is carried to the 'Factor Development - Section A1' worksheet.

Account 2690, includes the cost of organizing and incorporating the company, the original cost of government franchise, the original cost of patent rights, and other intangible property having a life of more than one year and use in connection with the company's telecommunications.

Common

There are several factors that are developed in the category called common. They are: Executive Expense, Planning Expense, External Relations Expense, Information Management Expense, Legal Expense, Other Procurement Expense, Research and Development Expense, and Other General and Administrative Expense.

Executive Expense

Executive Expense, account 6711: Included in this numerator is executive expense which shall include costs incurred in formulating corporate policy and in providing overall administration and management. The expenses for this factor can be found in Operating Expenses - Section B worksheet. These expenses are also adjusted with cost savings and inflation factors to bring expenses to study year.

Planning Expense

Planning Expense, account 6712: Included in this factor are costs incurred in developing and evaluating long-term courses of action for the future operations of the Company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. The expenses for this factor can be found in Operating Expenses - Section B worksheet. These expenses are also adjusted with cost savings and inflation factors to bring expenses to study year.

External Relations Expense

External Relations Expense, account 6722: Included in this factor is costs incurred in maintaining relations with government, regulators, other companies and the general public. The expenses for this factor can be found in Operating Expenses - Section B worksheet. These expenses are also adjusted with cost savings and inflation factors to bring expenses to study year.

Information Management Expense

Information Management Expense, account 6724: Included in this factor are costs incurred in planning, developing, testing, implementing and maintaining data bases and application systems for general purpose computers. The expenses for this factor can be

found in Operating Expenses - Section B worksheet. These expenses are also adjusted with cost savings and inflation factors to bring expenses to study year.

Legal Expense

Legal Expense, account 6725: Included in this factor is costs incurred in providing legal services. This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. The expenses for this factor can be found in Operating Expenses - Section B worksheet. These expenses are also adjusted with cost savings and inflation factors to bring expenses to study year.

Other Procurement Expense

Other Procurement Expense, account 6726: Included in this factor are costs incurred in procuring material and supplies, including office supplies. The expenses for this factor can be found in the Operating Expenses - Section B worksheet. These expenses are also adjusted with cost savings and inflation factors to bring expenses to study year.

Research and Development Expense

Research and Development Expense, account 6727: Included in this factor are costs incurred in making planned search or critical investigation aimed at discovery of new knowledge. The expenses for this factor can be found in the Operating Expenses - Section B worksheet. These expenses are also adjusted with cost savings and inflation factors to bring expenses to study year.

Other General and Administrative Expenses

Other General and Administrative Expenses, account 6728: Included in this factor are costs incurred in performing general administrative activities not directly charged to the user, and not provided for in other accounts. This includes providing general reference libraries, food services, archives, general security investigation services, operating official private branch exchanges in the conduct of the business and telecommunications and mail services. The expenses for this factor can be found in the Operating Expenses - Section B worksheet. These expenses are also adjusted with cost savings and inflation factors to bring expenses to study year.

Denominator Development

The Denominator for the Network Support, Directly Attributable and Common Factors is the same. It includes the direct costs and the directly assigned numerator expenses. It is calculated by taking expenses directly from the Company MR5 report which is displayed as worksheet 'MR5' in the Expense Factors Module. The expense dollars associated with Central Office Switching, Operator System, Central Office Transmission, Info Origination/Termination, Cable & Wire facilities, Conduit System, Total Plant Non-Specific Operating expense, and Services and a portion of Network Operations are carried

forward from the 'MR5' worksheet to the 'Operating Expense - Section B' worksheet. Section B multiplies the EOY dollars for accounts 6211, 6212, 6215, 6220, 6231, 6232, 6311, 6341, 6351, 6362, 6411, 6421, 6422, 6423, 6424, 6426, 6431, 6441, 6531, 6533, 6620 by productivity and inflation to bring the expenses to study year. The results are then summed and carried forward to the Denominator Development - Section A2 worksheet.

The denominator also includes expenses associated with investments. They are calculated by taking investments from Central Office Switching, Central Office Equipment, Station Apparatus, Customer Premises Wiring, Large Private Branch Exchanges, Public Telephone Equipment, other Terminal Equipment from the Company MR2A report which is displayed as worksheet MR2A in the Expense Factors Module. They are then carried forward to the sheet designated Investment and Capital Costs - Section D. These investments are multiplied by Ad Valorem Tax, Depreciation, Income Tax and Cost of Money factors. The results are then summed and carried forward to the Denominator Development - Section A2 worksheet.

Factor Summary - Retail

Jurisdiction: U S WEST

Depreciation Group: Economic Lives

Investment Related Factors

| Maintenance Factors | Expense Related Account Code(s) | Investment Related Account Code(s) | Field Reporting Code(s) (FRC) | Factor |
|--|--|---|--|-----------------|
| Land & Building | 6121 | 2111/2121 | 20,110 | 0.036482 |
| Outside Plant | | | | |
| Poles | 6411 | 2411 | 1,11 | 0.066123 |
| Aerial Cable | | | | |
| - Metallic | 6421.1 | 2421.11,,21 | 52 | 0.119570 |
| - Nonmetallic | 6421.2 | 2421.12,,22 | 852 | 0.012509 |
| Underground Cable | | | | |
| - Metallic | 6422.1 | 2422.11,,21 | 5 | 0.038517 |
| - Nonmetallic | 6422.2 | 2422.12,,22 | 85 | 0.013365 |
| Buried Cable | | | | |
| - Metallic | 6423.1 | 2423.11,,21 | 45 | 0.067005 |
| - Nonmetallic | 6423.2 | 2423.12,,22 | 845 | 0.014804 |
| Submarine Cable | | | | |
| - Metallic | 6424.1 | 2424.11,,21 | 6 | 0.010792 |
| - Nonmetallic | 6424.2 | 2424.12,,22 | 86 | 0.010347 |
| Intrabuilding Network Cable Expense | | | | |
| - Metallic | 6426.1 | 2426.1 | 62 | 0.065876 |
| - Nonmetallic | 6426.2 | 2426.2 | 862 | 0.013536 |
| Aerial Wire | 6431 | 2431 | 3 | 0.018295 |
| Underground Conduit | 6441 | 2441 | 4 | 0.006459 |
| Central Office Equipment | | | | |
| Digital Electronic | 6212 | 2212 | 377 | 0.027112 |
| Operator Systems | 6220 | 2220 | 117 | 0.037291 |
| Radio Systems Expense | 6231 | 2231 | 67 | 0.013453 |
| Circuit Equipment | | | | |
| - Digital Circuit Equipment | 6232.1 | 2232.1 | 157 | 0.009855 |
| - Subscriber Pair Gain - Digital | 6232.2 | 2232.2 | 257 | 0.015413 |
| - Subscriber Pair Gain - Digital (SONET) | 6232.2 | 2232.2 | 257 | 0.014854 |
| - Other Digital Equipment | 6232.3 | 2232.3 | 357 | 0.021526 |
| - Other Digital Equipment (SONET) | 6232.3 | 2232.3 | 357 | 0.020967 |
| - Subscriber Pair Gain - Analog | 6232.4 | 2232.4 | 457 | 0.030824 |
| - Other Analog Equipment | 6232.5 | 2232.5 | 57 | 0.073353 |
| Station Equipment | | | | |
| Channel Term Equipment | 6362.8 | 2362.8 | 858 | 0.035894 |

Factor Summary - Retail

Jurisdiction: U S WEST

Depreciation Group: Economic Lives

| | | | | |
|--------------------------------|--------|------|-----|-----------------|
| Right To Use Fee (RTU) | 6212 | 2212 | 377 | 0.003793 |
| Ad Valorem | 7240.1 | 2001 | | 0.008686 |
| Expense Related Factors | | | | |

| Commercial | Related Account Codes | Factor |
|---|--------------------------------------|-----------------|
| Group 1 - Residence | | |
| Product Management Expense | 6611 | 0.004986 |
| Sales Expense | 6612 | 0.000167 |
| Product Advertising Expense | 6613 | 0.009829 |
| Group 2 - BUS, Centrex, Pri. Ln., PBX, ISDN, Public, ACS | | |
| Product Management Expense | 6611 | 0.017463 |
| Sales Expense | 6612 | 0.047521 |
| Product Advertising Expense | 6613 | 0.004387 |
| Group 3 - Interconnect, Carrier Features, PAL | | |
| Product Management Expense | 6611 | 0.012230 |
| Sales Expense | 6612 | 0.004207 |
| Product Advertising Expense | 6613 | 0.000000 |
| Group 4 - Operator Services / DA | | |
| Product Management Expense | 6611 | 0.037346 |
| Sales Expense | 6612 | 0.028116 |
| Product Advertising Expense | 6613 | 0.023618 |
| Group 5 - Toll | | |
| Product Management Expense | 6611 | 0.005974 |
| Sales Expense | 6612 | 0.023664 |
| Product Advertising Expense | 6613 | 0.020260 |
| Group 6 - Billing & Collection | | |
| Product Management Expense | 6611 | 0.037346 |
| Sales Expense | 6612 | 0.006711 |
| Product Advertising Expense | 6613 | 0.003918 |
| Group 7 - Listings, Features, IS, Misc. | | |
| Product Management Expense | 6611 | 0.046265 |
| Sales Expense | 6612 | 0.110107 |
| Product Advertising Expense | 6613 | 0.048203 |
| Business Fees | 7240.2-9 | 0.015622 |

Factor Summary - Retail

Jurisdiction: U S WEST**Depreciation Group: Economic Lives*****Expense Related Factors (continued)*****Network Support**

| | | |
|------------------------|--------------|-----------------|
| Network Operations | 6532, 34, 35 | 0.054823 |
| Network Support Assets | 2112 - 2116 | 0.017109 |

Directly Attributable

| | | |
|--------------------------------|-------------|-----------------|
| General Support Assets | 2111, 21-23 | 0.110081 |
| Computers | 2124 | 0.049269 |
| Uncollectible | 5301, 5302 | 0.011391 |
| Accounting and Finance Expense | 6721 | 0.011926 |
| Human Resources Expense | 6723 | 0.009007 |
| Intangibles | 2690 | 0.000184 |

Common

| | |
|------------------|-----------------|
| 6711,12,22,24-28 | 0.145276 |
|------------------|-----------------|

Factor Development Section A1

Jurisdiction: U S WEST

Study: Retail

| Account | Numerator a | Source | Denominator b | Source | Factors c=a/b | Power (Sec. A1) d | Sub. Line Testing (Sec. A1) e | Interoffice Testing (Sec. A1) f | Total Factor g=sum(c:f) |
|--|----------------|-------------------|------------------|--------------------------------|------------------|-------------------------|--|--|-------------------------------|
| Maintenance Factors | | | | | | | | | |
| Land & Building | 192,323,092 | Sec. B, 6121 | 5,271,763,961 | Sec. C, 2111, 2121 | 0.036482 | - | - | - | 0.036482 |
| Outside Plant | | | | | | | | | |
| Poles | 15,285,088 | Sec. B, 6411 | 231,161,360 | Sec. C, 2411 | 0.066123 | - | - | - | 0.066123 |
| Aerial Cable | | | | | | | | | |
| - Metallic | 109,591,073 | Sec. B, 6421.1 | 1,003,366,007 | Sec. C, 2421.11..21 | 0.109223 | - | 0.009230 | 0.001117 | 0.119570 |
| - Nonmetallic | 40,118 | Sec. B, 6421.2 | 18,552,357 | Sec. C, 2421.12..22 | 0.002162 | - | 0.009230 | 0.001117 | 0.012509 |
| Underground Cable | | | | | | | | | |
| - Metallic | 59,295,615 | Sec. B, 6422.1 | 2,104,913,089 | Sec. C, 2422.11..21 | 0.028170 | - | 0.009230 | 0.001117 | 0.038517 |
| - Nonmetallic | 1,592,472 | Sec. B, 6422.2 | 527,596,725 | Sec. C, 2422.12..22 | 0.003018 | - | 0.009230 | 0.001117 | 0.013365 |
| Buried Cable | | | | | | | | | |
| - Metallic | 409,484,592 | Sec. B, 6423.1 | 7,227,264,420 | Sec. C, 2423.11..21 | 0.056658 | - | 0.009230 | 0.001117 | 0.067005 |
| - Nonmetallic | 2,533,152 | Sec. B, 6423.2 | 568,358,533 | Sec. C, 2423.12..22 | 0.004457 | - | 0.009230 | 0.001117 | 0.014804 |
| Submarine Cable | | | | | | | | | |
| - Metallic | 3,483 | Sec. B, 6424.1 | 7,822,855 | Sec. C, 2424.11..21 | 0.000445 | - | 0.009230 | 0.001117 | 0.010792 |
| - Nonmetallic | 0 | Sec. B, 6424.2 | 3,151,010 | Sec. C, 2424.12..22 | 0.000000 | - | 0.009230 | 0.001117 | 0.010347 |
| Intrabuilding Network Cable Expense | | | | | | | | | |
| - Metallic | 17,101,945 | Sec. B, 6426.1 | 307,984,385 | Sec. C, 2426.1 | 0.055529 | | 0.009230 | 0.001117 | 0.065876 |
| - Nonmetallic | 33,565 | Sec. B, 6426.2 | 10,526,005 | Sec. C, 2426.2 | 0.003189 | | 0.009230 | 0.001117 | 0.013536 |
| Aerial Wire | 618,617 | Sec. B, 6431 | 33,814,070 | Sec. C, 2431 | 0.018295 | - | - | - | 0.018295 |
| Underground Conduit | 10,834,673 | Sec. B, 6441 | 1,677,501,562 | Sec. C, 2441 | 0.006459 | - | - | - | 0.006459 |
| Central Office Equipment | | | | | | | | | |
| Digital Electronic | 112,524,048 | Sec. B, 6212 | 4,683,824,850 | Sec. C, 2212 | 0.024024 | 0.003088 | - | - | 0.027112 |
| Operator Systems | 1,191,601 | Sec. B, 6220 | 34,839,225 | Sec. C, 2220 | 0.034203 | 0.003088 | - | - | 0.037291 |
| Radio Systems | 3,921,940 | Sec. B, 6231 | 424,123,491 | Sec. C, 2231 | 0.009247 | 0.003088 | - | 0.001117 | 0.013453 |
| Circuit Equipment | | | | | | | | | |
| - Digital Circuit Equipment | 418,697 | Sec. B, 6232.1 | 74,115,460 | Sec. C, 2232.1 | 0.005649 | 0.003088 | - | 0.001117 | 0.009855 |
| - Subscriber Pair Gain - Digital | 32,167,191 | Sec. B, 6232.2 | 2,870,163,136 | Sec. C, 2232.2 | 0.011207 | 0.003088 | - | 0.001117 | 0.015413 |
| - Subscriber Pair Gain - Digital (SONET) | 32,167,191 | Sec. B, 6232.2 | 2,870,163,136 | Sec. C, 2232.2 | 0.011207 | 0.003088 | - | 0.000559 | 0.014854 |
| - Other Digital Equipment | 48,132,667 | Sec. B, 6232.3 | 2,778,891,569 | Sec. C, 2232.3 | 0.017321 | 0.003088 | - | 0.001117 | 0.021526 |
| - Other Digital Equipment (SONET) | 48,132,667 | Sec. B, 6232.3 | 2,778,891,569 | Sec. C, 2232.3 | 0.017321 | 0.003088 | - | 0.000559 | 0.020967 |
| - Subscriber Pair Gain - Analog | 1,791,329 | Sec. B, 6232.4 | 67,296,320 | Sec. C, 2232.4 | 0.026619 | 0.003088 | - | 0.001117 | 0.030824 |
| - Other Analog Equipment | 33,966,143 | Sec. B, 6232.5 | 491,210,211 | Sec. C, 2232.5 | 0.069148 | 0.003088 | - | 0.001117 | 0.073353 |
| Station Equipment | | | | | | | | | |
| Channel Term Equipment | 9,938,509 | Sec. B, 6362 | 285,779,169 | Sec. C, 2362.8 | 0.034777 | - | - | 0.001117 | 0.035894 |
| Power and Testing | | | | | | | | | |
| Power | 40,123,526 | Sec. B, 6531 | 12,993,627,912 | Sec. C, 2210, 2351 | 0.003088 | - | - | - | - |
| Subscriber Line Testing | 105,780,516 | Sec. B, 41M & 41T | 11,461,024,996 | Sec. C, 2421-2424 | 0.009230 | - | - | - | - |
| Interoffice Testing | 20,976,892 | Sec. B, 14T | 18,771,945,126 | Sec. C, 2231, 32, 62-2421-2424 | 0.001117 | - | - | - | - |
| RTU - Digital Electronic Exp. | 17,463,185 | Sec. B, 6212-RTU | 4,604,274,333 | Sec. C, 2212-RTU | 0.003793 | - | - | - | 0.003793 |
| Ad Valorem (Property Taxes) | 280,806,970 | Sec. B, 7240.1 | 32,328,376,282 | Sec. C, 2001 | 0.008686 | - | - | - | 0.008686 |

Factor Development Section A1

Jurisdiction: U S WEST

Study: Retail

| Account | Numerator | Source | Denominator | Source | Factors | Power (Sec. A1) | Sub. Line Testing (Sec. A1) | Interoffice Testing (Sec. A1) | Total Factor |
|---|-------------|------------------|---------------|----------------------------------|----------|--------------------|-----------------------------------|-------------------------------------|-----------------|
| Commerical | | | | | | | | | |
| Group 1 - Residence | | | | | | | | | |
| - Product Management | 10,235,940 | Sec. E, 6611 | 2,052,892,884 | Sec. A2, Tot. Dir. Assigned Exp. | 0.004986 | - | - | - | 0.004986 |
| - Sales | 343,449 | Sec. E, 6612 | 2,052,892,884 | Sec. A2, Tot. Dir. Assigned Exp. | 0.000167 | - | - | - | 0.000167 |
| - Advertising | 20,177,204 | Sec. E, 6613 | 2,052,892,884 | Sec. A2, Tot. Dir. Assigned Exp. | 0.009829 | - | - | - | 0.009829 |
| Group 2 - BUS, Centrex, Pri. Ln., PBX, ISDN, Public, ACS | | | | | | | | | |
| - Product Management | 48,835,996 | Sec. E, 6611 | 2,796,602,772 | Sec. A2, Tot. Dir. Assigned Exp. | 0.017463 | - | - | - | 0.017463 |
| - Sales | 132,898,445 | Sec. E, 6612 | 2,796,602,772 | Sec. A2, Tot. Dir. Assigned Exp. | 0.047521 | - | - | - | 0.047521 |
| - Advertising | 12,268,913 | Sec. E, 6613 | 2,796,602,772 | Sec. A2, Tot. Dir. Assigned Exp. | 0.004387 | - | - | - | 0.004387 |
| Group 3 - Interconnect, Carrier Features, PAL | | | | | | | | | |
| - Product Management | 23,482,215 | Sec. E, 6611 | 1,920,014,212 | Sec. A2, Tot. Dir. Assigned Exp. | 0.012230 | - | - | - | 0.012230 |
| - Sales | 8,077,785 | Sec. E, 6612 | 1,920,014,212 | Sec. A2, Tot. Dir. Assigned Exp. | 0.004207 | - | - | - | 0.004207 |
| - Advertising | 0 | Sec. E, 6613 | 1,920,014,212 | Sec. A2, Tot. Dir. Assigned Exp. | 0.000000 | - | - | - | 0.000000 |
| Group 4 - Operator Services / DA | | | | | | | | | |
| - Product Management | 880,183 | Sec. E, 6611 | 22,747,852 | Sec. A2, Tot. Dir. Assigned Exp. | 0.038693 | - | - | - | 0.038693 |
| - Sales | 662,650 | Sec. E, 6612 | 22,747,852 | Sec. A2, Tot. Dir. Assigned Exp. | 0.029130 | - | - | - | 0.029130 |
| - Advertising | 556,655 | Sec. E, 6613 | 22,747,852 | Sec. A2, Tot. Dir. Assigned Exp. | 0.024471 | - | - | - | 0.024471 |
| Group 5 - Toll | | | | | | | | | |
| - Product Management | 3,794,553 | Sec. E, 6611 | 635,193,498 | Sec. A2, Tot. Dir. Assigned Exp. | 0.005974 | - | - | - | 0.005974 |
| - Sales | 15,031,158 | Sec. E, 6612 | 635,193,498 | Sec. A2, Tot. Dir. Assigned Exp. | 0.023664 | - | - | - | 0.023664 |
| - Advertising | 12,869,116 | Sec. E, 6613 | 635,193,498 | Sec. A2, Tot. Dir. Assigned Exp. | 0.020260 | - | - | - | 0.020260 |
| Group 6 - Billing & Collection | | | | | | | | | |
| - Product Management | 1,539,059 | Sec. E, 6611 | 45,360,811 | Sec. A2, Tot. Dir. Assigned Exp. | 0.033929 | - | - | - | 0.033929 |
| - Sales | 315,388 | Sec. E, 6612 | 45,360,811 | Sec. A2, Tot. Dir. Assigned Exp. | 0.006953 | - | - | - | 0.006953 |
| - Advertising | 184,145 | Sec. E, 6613 | 45,360,811 | Sec. A2, Tot. Dir. Assigned Exp. | 0.004060 | - | - | - | 0.004060 |
| Group 7 - Listings, Features, IS, Misc. | | | | | | | | | |
| - Product Management | 23,118,973 | Sec. E, 6611 | 499,702,995 | Sec. A2, Tot. Dir. Assigned Exp. | 0.046265 | - | - | - | 0.046265 |
| - Sales | 55,020,680 | Sec. E, 6612 | 499,702,995 | Sec. A2, Tot. Dir. Assigned Exp. | 0.110107 | - | - | - | 0.110107 |
| - Advertising | 24,086,971 | Sec. E, 6613 | 499,702,995 | Sec. A2, Tot. Dir. Assigned Exp. | 0.048203 | - | - | - | 0.048203 |
| Business Fees (Other Operating Taxes) | 124,548,296 | Sec. B, 7240.2-9 | 7,972,515,025 | Sec. A2, Business Fees | 0.015622 | - | - | - | 0.015622 |

Study: Retail[illegible]

Denominator Development

Section A2

Study: Retail

Jurisdiction: U S WEST

| | Expense Amount | Source |
|---|-------------------|---|
| Directly Attributable | | |
| Operating Expenses | | |
| Central Office Switching Expense | 222,601,356 | Sec. B, 6210 |
| Operator Systems Expense | 911,040 | Sec. B, 6220 |
| Central Office Transmission Expense | 121,729,525 | Sec. B, 6230 |
| Info Origination/Termination Expense | 190,403,213 | Sec. B, 6310 |
| Cable and Wire Facilities Expenses | 645,691,359 | Sec. B, 6410 |
| Aerial Wire Expense | 618,617 | Sec. B, 6431 |
| Conduit System Expense | 10,834,673 | Sec. B, 6441 |
| Total Plant Non-specific Operating Expense | 188,641,440 | Sec. B, 6531, 33 |
| Services Expense | 789,551,886 | Sec. B, 6620 |
| Network Administration - Other Studies | 25,663,260 | Sec. B, 6532,34,35 |
| Investment Expenses | | |
| Central Office Switching | 49,685,141 | Sec. D, 2681.4 |
| Central Office Equipment | 2,554,917,124 | Sec. C, 2210, 2232 |
| Station Apparatus | 108,426 | Sec. C, 2311 |
| Customer Premises Wiring | - | Sec. C, 2321 |
| Large Private Branch Exchanges | 5,059 | Sec. C, 2341 |
| Public Telephone Terminal Equipment | 27,605,089 | Sec. C, 2351 |
| Other Terminal Equipment | 74,356,441 | Sec. C, 2362 |
| Total Other Studies | 364,580,007 | Sec. D, Page 4 |
| Total Outside Plant | 2,423,804,400 | Sec. C, 2411,2421-24,31,41 |
| Ad Valorem | 280,806,970 | Sec. B, 7240.1 |
| Total Directly Attributed Expenses | 7,972,515,025 | Sec A2, sum of Exp. |
| Total Commercial Marketing Expense | 6,296,250,719 | Adj. Sheet, Commercial Marketing (Sec. E) - Denominator |
| Commercial Marketing Denominator Ratio | 1.266232 | Sec. A2 |
| Commercial Marketing Denominator Inflation Adj. | 0.266232 | Sec. A2 |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 5
 Study: Retail

Operating Expenses Section B

| Account Description | Account No. or FRC | EOY '97 Bk. Opr. Exp. | Adjustments or Not Used | Cost Savings Amount | Inflation Amount | Denominator Base | Adjustments or Not Used | Other Studies (Direct) | Numerator Base |
|---|--------------------|-----------------------|-------------------------|---------------------|--------------------|--------------------|-------------------------|------------------------|----------------|
| a | b | c | d | e=(c+d) *Factor | f=(c+d) *Factor | g=sum(c:f) | h | i | j=(g+h+i) |
| Central Office Switching Expense | 6210 | 225,762,025 | | | | 222,601,356 | | | |
| Analog Electronic Expense | 6211 | 48,262,921 | | (2,413,146) | 1,737,465 | 47,587,240 | (47,587,240) | | 0 |
| Digital Electronic Expense | 6212 | 177,116,652 | | (8,855,833) | 6,376,199 | 174,637,019 | | (62,112,970) | 112,524,048 |
| Electro-Mechanical Expense | 6215 | 382,452 | | (19,123) | 13,768 | 377,098 | (377,098) | | 0 |
| Digital Electronic Expense - RTU | 6212 (377) | 17,711,141 | | (885,557) | 637,601 | 17,463,185 | | | 17,463,185 |
| Operator Systems Expense | 6220 | 923,976 | | (46,199) | 33,263 | 911,040 | | 280,561 | 1,191,601 |
| Central Office Transmission Expense | 6230 | 123,457,936 | | | | 121,729,525 | | | |
| Radio Systems Expense | 6231 | 4,540,635 | | (227,032) | 163,463 | 4,477,067 | (336,610) | (218,516) | 3,921,940 |
| Circuit Equipment Expense | 6232 | | | 0 | 0 | | | | |
| - Digital Circuit Equipment Expense | 6232.1 | 424,642 | | (21,232) | 15,287 | 418,697 | | | 418,697 |
| - Subscriber Pair Gain - Digital Expense | 6232.2 | 32,625,182 | | (1,631,259) | 1,174,507 | 32,168,430 | | (1,239) | 32,167,191 |
| - Other Digital Equipment Expense | 6232.3 | 49,222,480 | | (2,461,124) | 1,772,009 | 48,533,366 | | (400,698) | 48,132,667 |
| - Subscriber Pair Gain - Analog Expense | 6232.4 | 1,816,764 | | (90,838) | 65,403 | 1,791,329 | | | 1,791,329 |
| - Other Analog Equipment Expense | 6232.5 | 34,449,555 | | (1,722,478) | 1,240,184 | 33,967,261 | | (1,118) | 33,966,143 |
| - Other Equipment Expense | 6263.6-.8 | 378,677 | | (18,934) | 13,632 | 373,375 | (373,375) | | 0 |
| Info Origination/Termination Expense | 6310 | 193,106,707 | | | | 190,403,213 | | | |
| Station apparatus Expense | 6311 | 24,054,314 | | (1,202,716) | 865,955 | 23,717,554 | (23,717,554) | | 0 |
| Large Private Branch Exchange Expense | 6341 | 11,829,788 | | (591,489) | 425,872 | 11,664,171 | (11,664,171) | | 0 |
| Public Tele Terminal Equipment Expense | 6351 | 33,454,196 | | (1,672,710) | 1,204,351 | 32,985,837 | (32,985,837) | | 0 |
| Other Terminal Equipment Expense | 6362 | 123,768,409 | | (6,188,420) | 4,455,663 | 122,035,651 | | (112,097,142) | 9,938,509 |
| Cable and Wire Facilities Expenses | 6410 | 654,859,391 | | | | 645,691,359 | | | |
| Poles Expense | 6411 | 15,502,117 | | (775,106) | 558,076 | 15,285,088 | | | 15,285,088 |
| Aerial Cable Expense | | | | | | | | | |
| Metallic | 6421.1 | 120,688,522 | | (6,034,426) | 4,344,787 | 118,998,883 | | (9,407,810) | 109,591,073 |
| Nonmetallic | 6421.2 | 40,688 | | (2,034) | 1,465 | 40,118 | | | 40,118 |
| Underground Cable Expense | | | | | | | | | |
| Metallic | 6422.1 | 60,137,540 | | (3,006,877) | 2,164,951 | 59,295,615 | | | 59,295,615 |
| Nonmetallic | 6422.2 | 1,615,084 | | (80,754) | 58,143 | 1,592,472 | | | 1,592,472 |
| Video Broadband | 6422.3,.4 | 2,022 | | (101) | 73 | 1,993 | | (1,993) | 0 |
| Buried Cable Expense | | | | | | | | | |
| Metallic | 6423.1 | 436,738,628 | | (21,836,931) | 15,722,591 | 430,624,287 | | (21,139,695) | 409,484,592 |
| Nonmetallic | 6423.2 | 2,569,120 | | (128,456) | 92,488 | 2,533,152 | | | 2,533,152 |
| Video Broadband | 6423.3,.4 | 183,323 | | (9,166) | 6,600 | 180,757 | | (180,757) | 0 |
| Submarine Cable Expense | | | | | | | | | |
| Metallic | 6424.1 | 3,533 | | (177) | 127 | 3,483 | | | 3,483 |
| Nonmetallic | 6424.2 | 0 | | 0 | 0 | 0 | | | 0 |
| Video Broadband | 6424.3,.4 | 0 | | 0 | 0 | 0 | | 0 | 0 |
| Intrabuilding Network Cable Expense | | | | | | | | | |
| Metallic | 6426.1 | 17,344,772 | | (867,239) | 624,412 | 17,101,945 | | | 17,101,945 |
| Nonmetallic | 6426.2 | 34,042 | | (1,702) | 1,226 | 33,565 | | | 33,565 |
| Aerial Wire Expense | 6431 | 627,400 | | (31,370) | 22,586 | 618,617 | | | 618,617 |
| Conduit System Expense | 6441 | 10,988,512 | | (549,426) | 395,586 | 10,834,673 | | | 10,834,673 |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 5
 Study: Retail

Operating Expenses Section B

| Account Description | Account No. or FRC | EOY '97 Bk. Opr. Exp. | Adjustments or Not Used | Cost Savings Amount | Inflation Amount | Denominator Base | Adjustments or Not Used | Other Studies (Direct) | Numerator Base |
|---|-----------------------|--------------------------|----------------------------|------------------------|---------------------|---------------------|----------------------------|---------------------------|--------------------|
| a | b | c | d | e=(c+d) *Factor | f=(c+d) *Factor | g=sum(c:f) | h | i | j=(g+h+i) |
| Total Plant Non-specific Operating Expense | 6531.33 | 191,319,919 | | | | 188,641,440 | | | |
| Power Expense | 6531 | 40,693,231 | | (2,034,662) | 1,464,956 | 40,123,526 | | | 40,123,526 |
| Sub. Line Testing - Other & Reported | 6533.1 | 107,282,471 | | (5,364,124) | 3,862,169 | 105,780,516 | | | 105,780,516 |
| Inward Movement Service Order Testing | 6533.2 | 22,069,479 | | (1,103,474) | 794,501 | 21,760,506 | | (21,760,506) | 0 |
| Interoffice Testing | 6533.4 | 21,274,738 | | (1,063,737) | 765,891 | 20,976,892 | | | 20,976,892 |
| Network Support Expense | | | | | | | | | |
| Motor Vehicle Expense | 6112 | 6,145,403 | | (307,270) | 221,235 | 6,059,367 | | | 6,059,367 |
| Aircraft Expense | 6113 | 58,981 | | (2,949) | 2,123 | 58,155 | | | 58,155 |
| Special Purpose Vehicle Expense | 6114 | 68,677 | | (3,434) | 2,472 | 67,716 | | | 67,716 |
| Garage Work Equipment Expense | 6115 | 493,149 | | (24,657) | 17,753 | 486,245 | | | 486,245 |
| Other Work Equipment Expense | 6116 | 1,751,016 | | (87,551) | 63,037 | 1,726,501 | | | 1,726,501 |
| General Support Expense | | | | | | | | | |
| Land and Building Expenses - Maint. | 6121 | 195,253,451 | | (9,762,673) | 7,029,124 | 192,519,903 | 0 | (196,811) | 192,323,092 |
| Furniture and Artworks Expense | 6122 | 27,125,579 | | (1,356,279) | 976,521 | 26,745,821 | | | 26,745,821 |
| Office Equipment Expense | 6123 | 25,440,435 | | (1,272,022) | 915,856 | 25,084,268 | | | 25,084,268 |
| General Purpose Computers Expense | 6124 | 200,342,128 | | (10,017,106) | 7,212,317 | 197,537,338 | | | 197,537,338 |
| Network Engineering/Operations/Admin | | 469,307,042 | | | | 462,736,743 | | (25,663,260) | 437,073,483 |
| Network Administration | 6532 | 32,634,476 | | (1,631,724) | 1,174,841 | 32,177,593 | | | |
| Network Operations | 6534 | 295,346,929 | | (14,767,346) | 10,632,489 | 291,212,072 | | | |
| Engineering | 6535 | 141,325,637 | | (7,066,282) | 5,087,723 | 139,347,078 | | | |
| Access | | | | | | | | | |
| Interstate | 6540.1 | 7,538,171 | 0 | 0 | 0 | | 0 | | 0 |
| Intrastate | 6540.2 | 203,408,362 | (7,538,171) | 0 | 0 | | 0 | | 0 |
| Intrastate Wireless Wholesale | 6540.3 | 4,538,834 | (203,408,362) | 0 | 0 | | 0 | | 0 |
| Interstate Competitive Local Exch Carriers | 6540.4 | N/A | (4,538,834) | 0 | 0 | | 0 | | 0 |
| Intrastate Competitive Local Exch Carriers | 6540.5 | 11,500,022 | | | | | | | |
| Other | | | | | | | | | |
| Prop Held for Future Telecomm Use Exp | 6511 | 0 | 0 | 0 | 0 | | 0 | | 0 |
| Provisioning Exp | 6512 | 10,699,877 | (10,699,877) | 0 | 0 | | 0 | | 0 |
| Nonregulated | 5280.4 | 454,684 | (454,684) | 0 | 0 | | 0 | | 0 |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 5
 Study: Retail

Operating Expenses Section B

| Account Description | Account No. or FRC | EOY '97 Bk. Opr. Exp. | Adjustments or Not Used | Cost Savings Amount | Inflation Amount | Denominator Base | Adjustments or Not Used | Other Studies (Direct) | Numerator Base |
|--|--------------------|-----------------------|-------------------------|---------------------|--------------------|--------------------|-------------------------|------------------------|----------------|
| a | b | c | d | e=(c+d) *Factor | f=(c+d) *Factor | g=sum(c:f) | h | i | j=(g+h+i) |
| Selling, General & Administrative | | | | | | | | | |
| Marketing | | | | | | | | | |
| Product Management Expense | 6611 | 149,669,186 | (149,669,186) | 0 | 0 | 0 | | | 0 |
| Sales Expense | 6612 | 283,674,115 | (283,674,115) | 0 | 0 | 0 | | | 0 |
| Product Advertising Expense | 6613 | 172,794,165 | (172,794,165) | 0 | 0 | 0 | | | 0 |
| Services | | | | | | | | | |
| | 6620 | | | | | 789,551,886 | | | |
| Call Completion Services Expense | 6621 | 37,749,922 | | (1,887,496) | 1,358,997 | 37,221,423 | | (37,221,423) | 0 |
| Number Services Expense | 6622 | 102,336,253 | | (5,116,813) | 3,684,105 | 100,903,545 | | (100,903,545) | 0 |
| Customer Services Expense | 6623 | 660,676,388 | | (33,033,819) | 23,784,350 | 651,426,918 | | (651,426,918) | 0 |
| Corporate Operations | | | | | | | | | |
| Executive Expense | 6711 | 107,578,232 | | (5,378,912) | 3,872,816 | | | | 106,072,137 |
| Planning Expense | 6712 | 7,874,428 | | (393,721) | 283,479 | | | | 7,764,186 |
| Accounting and Finance Expense | 6721 | 96,427,337 | | (4,821,367) | 3,471,384 | | | | 95,077,354 |
| External Relations Expense | 6722 | 72,668,377 | | (3,633,419) | 2,616,062 | | | | 71,651,019 |
| Human Resources Expense | 6723 | 72,830,908 | | (3,641,545) | 2,621,913 | | | | 71,811,275 |
| Information Management Expense | 6724 | 670,061,792 | | (33,503,090) | 24,122,225 | | | | 660,680,927 |
| Legal Expense | 6725 | 61,271,473 | | (3,063,574) | 2,205,773 | | | | 60,413,673 |
| Other | | | | | | | | | |
| Other Procurement Expense | 6726 | 23,108,984 | | (1,155,449) | 831,923 | | | | 22,785,458 |
| Research and Development Expense | 6727 | 3,916,862 | | (195,843) | 141,007 | | | | 3,862,026 |
| Other General and Admin Exp | 6728 | 228,178,609 | | (11,408,930) | 8,214,430 | | | | 224,984,109 |
| Provision for Uncoll Notes Rec | 6790 | 0 | 0 | 0 | 0 | | 0 | | 0 |
| Property Taxes | 7240.1 | 280,806,970 | | 0 | 0 | 280,806,970 | | | 280,806,970 |
| Other Operating Taxes | 7240.2-9 | 124,548,296 | | 0 | 0 | 124,548,296 | | | 124,548,296 |
| Uncollectible Rev - Interconnect | 5301.4..5;5302 | 3,631,606 | (3,631,606) | 0 | 0 | 0 | | | 0 |
| Uncollectible Rev - Telecommunications | 5301.1-3;5280.8 | 90,817,701 | | 0 | 0 | 90,817,701 | | | 90,817,701 |
| Other Operating Income and Expense | 7100 | 13,702,219 | (13,702,219) | 0 | 0 | 0 | 0 | | 0 |
| Depreciation & Amortization Expense | 6560 | 2,534,826,894 | (2,534,826,894) | 0 | 0 | 0 | 0 | | 0 |
| Total | | 8,364,322,391 | | | | | | | |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 5
 Study: Retail

Operating Expenses Section B

| Account Description | Account No. or FRC | EOY '97 Bk. Opr. Exp. | Adjustments or Not Used | Cost Savings Amount e=(c+d) *Factor | Inflation Amount f=(c+d) *Factor | Denominator Base g=sum(c:f) | Adjustments or Not Used h | Other Studies (Direct) i | Numerator Base j=(g+h+i) |
|---|-----------------------|--------------------------|----------------------------|--|---|-----------------------------------|---------------------------------|--------------------------------|-----------------------------|
| a | b | c | d | e=(c+d) *Factor | f=(c+d) *Factor | g=sum(c:f) | h | i | j=(g+h+i) |
| Adjustment Development | | | | | | | | | |
| Central Office Switching Expense | 6210 | | | | | | | | |
| Digital Electronic Exp. (Other Studies) | 6212 | 62,994,899 | | (3,149,745) | 2,267,816 | 62,112,970 | | | |
| Operator Systems Exp. (Other Studies) | 6220 | (284,545) | | 14,227 | (10,244) | (280,561) | | | |
| Central Office Transmission Expense | 6230 | | | | | | | | |
| Radio Systems Expense (Not Used) | 6231 | 341,390 | | (17,069) | 12,290 | 336,610 | | | |
| Radio Systems Expense (Other Studies) | 6231 | 221,619 | | (11,081) | 7,978 | 218,516 | | | |
| Sub. Pair Gain - Dig. Exp (Other Studies) | 6232.2-257RTU | 1,256 | | (63) | 45 | 1,239 | | | |
| Other Dig. Equip. Exp (Other Studies) | 6232.3-357RTU | 406,388 | | (20,319) | 14,630 | 400,698 | | | |
| Other Analog Eqpt. Exp. (Other Studies) | 6232.5-57RTU | 1,134 | | (57) | 41 | 1,118 | | | |
| Info Origination/Termination Expense | | | | | | | | | |
| Other Ter. Equip. Exp (Other Studies) | 6362 | 113,688,785 | | (5,684,439) | 4,092,796 | 112,097,142 | | | |
| Cable and Wire Facilities Expenses | | | | | | | | | |
| Aerial Cable Metallic Exp. (Other Studies) | 6421.1 | 9,541,389 | | (477,069) | 343,490 | 9,407,810 | | | |
| Buried Cable Metallic Exp. (Other Studies) | 6423.1 | 21,439,853 | | (1,071,993) | 771,835 | 21,139,695 | | | |
| General Support Expense | | | | | | | | | |
| Land and Building Exp. (Other Studies) | 6121 | 199,605 | | (9,980) | 7,186 | 196,811 | | | |
| Total Year 96 Adjusted Operating Rents | 6121.13 | 0 | | 0 | 0 | 0 | | | |
| Network Engineering/Operations/Admin | | | | | | | | | |
| Network Administration - Adjustment | 6532 - Adj | 26,027,647 | | (1,301,382) | 936,995 | 25,663,260 | | | |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 2A
 Study: Retail

Investments and Capital Costs - Section C

| Account Description | Account No. or FRC | EOY '97 Book Inv. | CC/BC Adj. Amount | Future Use | Not Used | Adjustments | Maint. Factor Base |
|---|-----------------------|-----------------------|----------------------|------------|-----------------|---------------|-----------------------|
| a | b | c | d=c*Adj | e | f | g | h=sum(c:g) |
| Land | 2111 | 100,046,362 | 121,941,031 | | | 1 | 221,987,395 |
| Buildings | 2121 | 2,276,254,281 | 2,774,401,663 | | | (879,377) | 5,049,776,566 |
| Central Office Equipment | 2210, 2232 | 12,876,480,131 | | | | | |
| Analog Electronic Switching | 2211 | 1,274,548,376 | 0 | | (1,274,548,376) | | 0 |
| Digital Electronic Switching | 2212 | 4,817,699,056 | 0 | | | (133,874,206) | 4,683,824,850 |
| Electro-Mechanical Switching | 2215 | 0 | 0 | | 0 | | 0 |
| Operator Systems | 2220 | 34,839,225 | 0 | | | | 34,839,225 |
| Radio Systems | 2231 | 432,419,112 | 0 | | | (8,295,621) | 424,123,491 |
| Circuit Equipment | 2232 | | | | | | |
| Digital Circuit Equipment Expense | 2232.1 | 74,115,460 | 0 | | | | 74,115,460 |
| Subscriber Pair Gain - Digital Expense | 2232.2 | 2,870,163,136 | 0 | | | | 2,870,163,136 |
| Other Digital Equipment Expense | 2232.3 | 2,778,891,569 | 0 | | | | 2,778,891,569 |
| Subscriber Pair Gain - Analog Expense | 2232.4 | 67,296,320 | 0 | | | | 67,296,320 |
| Other Analog Equipment Expense | 2232.5 | 491,210,211 | 0 | | | | 491,210,211 |
| Embedded Tools and Test Sets | 2232.6 | 0 | 0 | | 0 | | 0 |
| Video Broadband - Analog | 2232.7 | 25,565,854 | 0 | | (25,565,854) | | 0 |
| Video Broadband - Digital | 2232.8 | 9,731,811 | 0 | | (9,731,811) | | 0 |
| <i>Digital Electronic Switching - RTU</i> | <i>2212-RTU</i> | <i>4,604,274,333</i> | <i>0</i> | | | | <i>4,604,274,333</i> |
| Station Apparatus | 2311 | 538,549 | 0 | | (538,549) | | 0 |
| Customer Premises Wiring | 2321 | 0 | 0 | | 0 | | 0 |
| Large Private Branch Exchanges | 2341 | 25,128 | 0 | | (25,128) | | 0 |
| Public Telephone Terminal Equipment | 2351 | 117,147,781 | 0 | | (117,147,781) | | 0 |
| Other Terminal Equipment | 2362 | 286,609,552 | | | | | |
| Inside Wire | 2362.2 | 830,383 | 0 | | (830,383) | | 0 |
| Video Broadband | 2362.6 | 0 | 0 | | 0 | | 0 |
| Subscriber Pair Gain | 2362.7 | 0 | 0 | | 0 | | 0 |
| Analog Network Chann Term Equip | 2362.3,.8,.9 | 285,779,169 | 0 | | | | 285,779,169 |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 2A
 Study: Retail

Investments and Capital Costs - Section C

| Account Description | Account No. or FRC | EOY '97 Book Inv. | CC/BC Adj. Amount d=c*Adj | Future Use e | Not Used f | Adjustments g | Maint. Factor Base h=sum(c:g) |
|---|-----------------------|-----------------------|---------------------------------|-----------------|---------------|------------------|-------------------------------------|
| a | b | c | d=c*Adj | e | f | g | h=sum(c:g) |
| Poles | 2411 | 231,177,793 | 0 | | | (16,433) | 231,161,360 |
| Aerial Cable | 2421 | | | | | | |
| Metallic | 2421.11,.21 | 1,003,366,007 | 0 | | | | 1,003,366,007 |
| Nonmetallic | 2421.12,.22 | 18,552,357 | 0 | | | | 18,552,357 |
| Video Broadcast | 2421.13,.14 | 0 | | | | | |
| Underground Cable | 2422 | | | | | | |
| Metallic | 2422.11,.21 | 2,104,913,089 | 0 | | | | 2,104,913,089 |
| Nonmetallic | 2422.12,.22 | 527,596,725 | 0 | | | | 527,596,725 |
| Video Broadcast - Metallic | 2422.13 | 2,928 | | | | | |
| Video Broadcast - Nonmetallic | 2422.14 | 4,110,004 | 0 | | (4,110,004) | | 0 |
| Buried Cable | 2423 | | | | | | |
| Metallic | 2423.11,.21 | 7,227,264,420 | 0 | | | | 7,227,264,420 |
| Nonmetallic | 2423.12,.22 | 568,358,533 | 0 | | | | 568,358,533 |
| Video Broadcast - Metallic | 2423.13 | 46,686,605 | 0 | | (46,686,605) | | 0 |
| Video Broadcast - Nonmetallic | 2423.14 | 1,302,546 | 0 | | (1,302,546) | | 0 |
| Submarine Cable | 2424 | | | | | | |
| Metallic | 2424.11,.21 | 7,822,855 | 0 | | | | 7,822,855 |
| Nonmetallic | 2424.12,.22 | 3,151,010 | 0 | | | | 3,151,010 |
| Video Broadcast - Metallic | 2424.13 | 0 | | | | | |
| Video Broadcast - Nonmetallic | 2424.14 | 0 | | | | | |
| Intrabuilding Network Cable | 2426 | | | | | | |
| Metallic | 2426.1 | 307,984,385 | 0 | | | | 307,984,385 |
| Nonmetallic | 2426.2 | 10,526,005 | 0 | | | | 10,526,005 |
| Video Broadcast - Metallic | 2426.3 | 17,066 | 0 | | (17,066) | | 0 |
| Video Broadcast - Nonmetallic | 2426.4 | 3,359 | 0 | | (3,359) | | 0 |
| Aerial Wire | 2431 | 33,814,070 | 0 | | | | 33,814,070 |
| Conduit System | 2441 | 1,678,560,274 | 0 | | | (1,058,712) | 1,677,501,562 |
| Total Telephone Plant In Service | Sec. C only | 29,432,311,813 | - | | - | - | - |
| Total Telephone Plant In Service | Sec. D only | 2,896,064,469 | - | | - | - | - |
| Total Telephone Plant In Service | 2001 | 32,328,376,282 | - | | - | - | - |
| Power | 2210, 32, 51 | 12,993,627,912 | 0 | | | | 12,993,627,912 |
| Subscriber Line Testing | 2421-2424 | 11,779,535,386 | 0 | | | 0 | 11,461,024,996 |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 2A
 Study: Retail

Investments and Capital Costs - Section C

| Account Description | Account No. or FRC | EOY '97 Book Inv. | CC/BC Adj. Amount | Future Use | Not Used | Adjustments | Maint. Factor Base |
|---------------------|-----------------------|-------------------|----------------------|------------|----------|-------------|-----------------------|
| a | b | c | d=c*Adj | e | f | g | h=sum(c:g) |
| Interoffice Testing | 2231,32,62:2421-2424 | 18,780,240,746 | 0 | | | (8,295,621) | 18,771,945,126 |

Adjustment Development

Land

| | | | | | |
|--------------------------------|---|---|--|---|--|
| <i>Land Adj for Rent Comp.</i> | 1 | 1 | | 1 | |
|--------------------------------|---|---|--|---|--|

Buildings

| | | | | | |
|---|-------------|---------|---------|--|-----------|
| Video Broadband - Joint (Adjustments) | 2121 - 610C | 396,321 | 483,054 | | (879,376) |
| Building Adj for Rent Comp. (Adjustments) | 2121 | (1) | (1) | | (2) |

Central Office Equipment

| | | | | | |
|-------------------------------|--------------|-------------|---|--|---------------|
| Voice Messaging (Adjustments) | 2212 - 9007C | 133,874,206 | 0 | | (133,874,206) |
| Radio Systems - Other | 2231 | 8,295,621 | 0 | | (8,295,621) |

Poles

| | | | | | |
|---------------------|------|--------|---|--|----------|
| Poles (Adjustments) | 2411 | 16,433 | 0 | | (16,433) |
|---------------------|------|--------|---|--|----------|

Conduit System

| | | | | | |
|-------------------------|------|-----------|---|--|-------------|
| Video Broadband - Joint | 504C | 1,058,712 | 0 | | (1,058,712) |
|-------------------------|------|-----------|---|--|-------------|

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 2A
 Study: Retail

Investments and Capital Costs - Sec. C

| Account Description | Account No. or FRC | Adj. Factor Base | Ad Valorem | Depreciation Expense | Cost of Money Exp. | Income Tax Exp. | Total Exp. |
|---|-----------------------|-----------------------|------------|-------------------------|-----------------------|--------------------|----------------------|
| a | b | i=sum(c:e) | j=i*Ad V. | k=i*Dep. | l=i*COM | m=i*IT | n=sum(j:m) |
| Land | 2111 | | | | | | |
| Buildings | 2121 | | | | | | |
| Central Office Equipment | 2210, 2232 | 12,876,480,131 | | | | | 2,554,917,124 |
| Analog Electronic Switching | 2211 | 1,274,548,376 | 11,070,727 | 136,704,666 | 63,904,417 | 36,449,185 | 248,128,996 |
| Digital Electronic Switching | 2212 | 4,817,699,056 | 41,846,534 | 516,733,578 | 241,553,992 | 137,775,238 | 937,909,342 |
| Electro-Mechanical Switching | 2215 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operator Systems | 2220 | 34,839,225 | 302,614 | 4,197,460 | 1,755,504 | 1,001,287 | 7,256,865 |
| Radio Systems | 2231 | 432,419,112 | 3,755,992 | 37,298,006 | 24,879,491 | 14,190,525 | 80,124,014 |
| Circuit Equipment | 2232 | | | | | | |
| Digital Circuit Equipment Expense | 2232.1 | 74,115,460 | 643,767 | 8,881,603 | 3,656,896 | 2,085,785 | 15,268,051 |
| Subscriber Pair Gain - Digital Expense | 2232.2 | 2,870,163,136 | 24,930,237 | 321,605,970 | 143,058,055 | 81,596,075 | 571,190,337 |
| Other Digital Equipment Expense | 2232.3 | 2,778,891,569 | 24,137,452 | 311,378,857 | 138,508,790 | 79,001,309 | 553,026,408 |
| Subscriber Pair Gain - Analog Expense | 2232.4 | 67,296,320 | 584,536 | 10,165,323 | 3,432,071 | 1,957,552 | 16,139,481 |
| Other Analog Equipment Expense | 2232.5 | 491,210,211 | 4,266,652 | 74,198,859 | 25,051,421 | 14,288,588 | 117,805,521 |
| Embedded Tools and Test Sets | 2232.6 | 0 | 0 | 0 | 0 | 0 | 0 |
| Video Broadband - Analog | 2232.7 | 25,565,854 | 222,065 | 3,861,803 | 1,303,843 | 743,673 | 6,131,385 |
| Video Broadband - Digital | 2232.8 | 9,731,811 | 84,531 | 1,090,464 | 485,064 | 276,666 | 1,936,725 |
| <i>Digital Electronic Switching - RTU</i> | <i>2212-RTU</i> | | | | | | |
| Station Apparatus | 2311 | 538,549 | 4,678 | 57,936 | 29,173 | 16,639 | 108,426 |
| Customer Premises Wiring | 2321 | 0 | 0 | - | - | - | - |
| Large Private Branch Exchanges | 2341 | 25,128 | 218 | 2,703 | 1,361 | 776 | 5,059 |
| Public Telephone Terminal Equipment | 2351 | 117,147,781 | 1,017,546 | 14,249,650 | 7,856,678 | 4,481,216 | 27,605,089 |
| Other Terminal Equipment | 2362 | | | | | | 74,356,441 |
| Inside Wire | 2362.2 | 830,383 | 7,213 | 115,424 | 59,090 | 33,703 | 215,430 |
| Video Broadband | 2362.6 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subscriber Pair Gain | 2362.7 | 0 | 0 | 0 | 0 | 0 | 0 |
| Analog Network Chann Term Equip | 2362.3,.8,.9 | 285,779,169 | 2,482,278 | 39,723,567 | 20,336,073 | 11,599,093 | 74,141,010 |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 2A
 Study: Retail

Investments and Capital Costs - Sec. C

| Account Description | Account No. or FRC | Adj. Factor Base | Ad Valorem | Depreciation Expense | Cost of Money Exp. | Income Tax Exp. | Total Exp. |
|---|-----------------------|-----------------------|------------|-------------------------|-----------------------|--------------------|---------------|
| a | b | i=sum(c:e) | j=i*Ad V. | k=i*Dep. | l=i*COM | m=i*IT | n=sum(j:m) |
| Poles | 2411 | 231,177,793 | 2,008,010 | 22,772,705 | 13,455,741 | 7,674,756 | 45,911,212 |
| Aerial Cable | 2421 | | | | | | |
| Metallic | 2421.11,.21 | 1,003,366,007 | 8,715,237 | 103,517,079 | 61,357,803 | 34,996,672 | 208,586,791 |
| Nonmetallic | 2421.12,.22 | 18,552,357 | 161,146 | 1,475,517 | 1,150,760 | 656,359 | 3,443,782 |
| Video Broadcast | 2421.13,.14 | 0 | 0 | 0 | 0 | 0 | 0 |
| Underground Cable | 2422 | | | | | | |
| Metallic | 2422.11,.21 | 2,104,913,089 | 18,283,275 | 181,784,146 | 133,678,128 | 76,246,043 | 409,991,592 |
| Nonmetallic | 2422.12,.22 | 527,596,725 | 4,582,705 | 35,819,301 | 33,369,226 | 19,032,818 | 92,804,050 |
| Video Broadcast - Metallic | 2422.13 | 2,928 | 25 | 253 | 186 | 106 | 570 |
| Video Broadcast - Nonmetallic | 2422.14 | 4,110,004 | 35,699 | 279,034 | 259,948 | 148,267 | 722,948 |
| Buried Cable | 2423 | | | | | | |
| Metallic | 2423.11,.21 | 7,227,264,420 | 62,776,019 | 443,056,518 | 473,234,827 | 269,919,120 | 1,248,986,485 |
| Nonmetallic | 2423.12,.22 | 568,358,533 | 4,936,762 | 35,171,062 | 37,091,665 | 21,155,986 | 98,355,475 |
| Video Broadcast - Metallic | 2423.13 | 46,686,605 | 405,520 | 2,862,052 | 3,056,997 | 1,743,621 | 8,068,189 |
| Video Broadcast - Nonmetallic | 2423.14 | 1,302,546 | 11,314 | 80,604 | 85,005 | 48,485 | 225,408 |
| Submarine Cable | 2424 | | | | | | |
| Metallic | 2424.11,.21 | 7,822,855 | 67,949 | 3,940 | 4,492 | 2,562 | 78,944 |
| Nonmetallic | 2424.12,.22 | 3,151,010 | 27,370 | 1,556 | 1,821 | 1,039 | 31,786 |
| Video Broadcast - Metallic | 2424.13 | 0 | 0 | 0 | 0 | 0 | 0 |
| Video Broadcast - Nonmetallic | 2424.14 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intrabuilding Network Cable | 2426 | | | | | | |
| Metallic | 2426.1 | 307,984,385 | 2,675,152 | 20,920,777 | 20,074,384 | 11,449,833 | 55,120,147 |
| Nonmetallic | 2426.2 | 10,526,005 | 91,429 | 732,964 | 679,282 | 387,442 | 1,891,117 |
| Video Broadcast - Metallic | 2426.3 | 17,066 | 148 | 353 | 1,229 | 701 | 2,431 |
| Video Broadcast - Nonmetallic | 2426.4 | 3,359 | 29 | 0 | 0 | 0 | 29 |
| Aerial Wire | 2431 | 33,814,070 | 293,709 | 6,365,628 | 2,418,828 | 1,379,628 | 10,457,794 |
| Conduit System | 2441 | 1,678,560,274 | 14,579,975 | 34,696,626 | 120,894,442 | 68,954,607 | 239,125,650 |
| Total Telephone Plant In Service | Sec. C only | 26,769,401,618 | - | - | - | - | - |
| Total Telephone Plant In Service | Sec. D only | 2,896,064,469 | - | - | - | - | - |
| Total Telephone Plant In Service | 2001 | 29,665,466,087 | - | - | - | - | - |
| Power | 2210, 32, 51 | 12,993,627,912 | - | - | - | - | - |
| Subscriber Line Testing | 2421-2424 | 11,779,535,386 | - | - | - | - | - |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 2A
 Study: Retail

Investments and Capital Costs - Sec. C

| Account Description | Account No. or FRC | Adj. Factor Base | Ad Valorem | Depreciation Expense | Cost of Money Exp. | Income Tax Exp. | Total Exp. |
|---------------------|-----------------------|------------------|------------|-------------------------|-----------------------|--------------------|------------|
| a | b | i=sum(c:e) | j=i*Ad V. | k=i*Dep. | l=i*COM | m=i*IT | n=sum(j:m) |
| Interoffice Testing | 2231,32,62:2421-2424 | 18,780,240,746 | - | - | - | - | - |

Adjustment Development

Land

Land Adj for Rent Comp.

Buildings

Video Broadband - Joint (Adjustments) 2121 - 610C

Building Adj for Rent Comp. (Adjustments) 2121

Central Office Equipment

Voice Messaging (Adjustments) 2212 - 9007C

Radio Systems - Other 2231

Poles

Poles (Adjustments) 2411

Conduit System

Video Broadband - Joint 504C

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 2A
 Study: Retail

Asset Related Expenses - Section D

| Account Description | Account No. | EOY '97 Bk. Opr. Exp. | Other Studies | Adjustments | CC/BC Adjustment Amount | Future Use | Investment Factor Base |
|--------------------------------------|-------------|-----------------------|---------------|-------------|-------------------------|------------|------------------------|
| a | b | c | d | e | f=sum(c:e)*Adj | g | h=sum(c:g) |
| Network Support Assets | | | | | | | |
| Motor Vehicles | 2112 | 340,891,549 | | | 49,189,732 | | 390,081,281 |
| Aircraft | 2113 | 1,875,494 | | | 825,217 | | 2,700,711 |
| Special Purpose Vehicles | 2114 | 1,117,928 | | | 691,423 | | 1,809,351 |
| Garage Work Equipment | 2115 | 9,105,953 | | | 2,987,709 | | 12,093,661 |
| Other Work Equipment | 2116 | 236,288,404 | | | 73,983,081 | | 310,271,485 |
| General Support Assets | | | | | | | |
| Land | 2111 | 100,046,362 | (31,101,533) | 1 | 84,033,077 | | 152,977,908 |
| Buildings | 2121 | 2,276,254,281 | (678,921,873) | (1) | 1,946,900,978 | | 3,544,233,385 |
| Furniture | 2122 | 12,476,433 | | 0 | 4,455,833 | | 16,932,266 |
| Office Equipment | 2123 | 177,191,488 | | (6) | 10,416,378 | | 187,607,860 |
| Inventories | 1220 | | | | | | |
| General Purpose Computers | 2124 | 1,642,111,475 | (302,986,490) | 0 | (631,072,023) | | 708,052,962 |
| Capital Leases | 2681 | 340,018,987 | | | | | |
| Land & Buildings | 2681.1 | 32,960,530 | | (0) | 0 | | 32,960,530 |
| Computers | 2681.3 | 39,768,970 | | (0) | 0 | | 39,768,970 |
| Computer Software | 2681.4 | 267,133,121 | | | 0 | | 267,133,121 |
| Other | 2681.9 | 156,365 | | | 0 | | 156,365 |
| Leasehold Improvements | 2682 | 118,812,709 | | | | | 118,812,709 |
| Land & Buildings | 2682.1 | 102,777,573 | | 0 | 0 | | 102,777,573 |
| Computers | 2682.2 | 16,035,136 | | 0 | 0 | | 16,035,136 |
| Intangibles | 2690 | 16,174,050 | | | 0 | | 16,174,050 |
| Total Plant in Service (Sec. D only) | | 5,272,365,112 | | | - | | - |
| less Land & Building | | 2,896,064,469 | | | - | | - |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 2A
 Study: Retail

Asset Related Expenses - Section D

| Account Description | Account No. | EOY '97 Bk. Opr. Exp. | Other Studies | Adjustments | CC/BC Adjustment Amount | Future Use | Investment Factor Base |
|----------------------------------|-------------|--------------------------|---------------|-------------|-------------------------------|------------|---------------------------|
| a | b | c | d | e | f=sum(c:e)*Adj | g | h=sum(c:g) |
| Inventories | | | | | | | |
| Plant Supplies - Nonexempt | 1220.11 | 12,551,133 | | | 0 | | 12,551,133 |
| Plant Supplies -Exempt | 1220.12 | 2,655,635 | | | 0 | | 2,655,635 |
| CO and PBX Eqpt. | 1220.14 | 33,904,732 | | | 0 | | 33,904,732 |
| Motor Vehicles | 1220.151 | 0 | | | 0 | | 0 |
| Tools & Other Work Eqpt. | 1220.152 | 158,423 | | | 0 | | 158,423 |
| Furn. & Office Eqpt. | 1220.16 | 0 | | | 0 | | 0 |
| Other | 1220.19 | 40,687,343 | | | 0 | | 40,687,343 |
| Other Studies | | | | | | | |
| Land - CO | 2111 | | 31,101,533 | | 37,907,955 | | 69,009,487 |
| Buildings - CO | 2121 | | 678,921,873 | | 827,500,684 | | 1,506,422,556 |
| General Purpose Computers - B&C | 2124 | | 298,076,249 | | (140,470,519) | | 157,605,730 |
| General Purpose Computers - AMA | 2124 | | 4,163,622 | | (1,962,136) | | 2,201,486 |
| General Purpose Computers - E911 | 2124 | | 746,619 | | (351,849) | | 394,770 |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 2A
 Study: Retail

Asset Related Expenses

Section D

| Account Description | Account No. | Investment Factor Base | Ad Valorem | Depreciation Expense | Cost of Money Expense | Income Tax Expense | Associated Operating Expenses | Total Cost |
|--------------------------------------|-------------|------------------------|------------|----------------------|-----------------------|--------------------|-------------------------------|--------------------|
| a | b | i=h | j=i*Ad V. | k=i*Dep | l=i*COM | m=i*IT | n | o=sum(j:n) |
| Network Support Assets | | | | | | | | 136,399,402 |
| Motor Vehicles | 2112 | 390,081,281 | 3,388,246 | 39,621,588 | 20,655,988 | 11,781,564 | 6,059,367 | 81,506,753 |
| Aircraft | 2113 | 2,700,711 | 23,458 | 0 | 0 | 0 | 58,155 | 81,614 |
| Special Purpose Vehicles | 2114 | 1,809,351 | 15,716 | 121,743 | 102,309 | 58,354 | 67,716 | 365,837 |
| Garage Work Equipment | 2115 | 12,093,661 | 105,046 | 808,902 | 685,959 | 391,251 | 486,245 | 2,477,402 |
| Other Work Equipment | 2116 | 310,271,485 | 2,695,018 | 19,444,184 | 17,895,200 | 10,206,892 | 1,726,501 | 51,967,796 |
| General Support Assets | | | | | | | | 856,002,043 |
| Land | 2111 | 152,977,908 | 1,328,766 | 156 | 16,374,509 | 9,339,535 | 5,580,940 | 32,623,905 |
| Buildings | 2121 | 3,544,233,385 | 30,785,211 | 91,998,356 | 300,001,827 | ##### | 129,300,722 | 723,198,267 |
| Furniture | 2122 | 16,932,266 | 147,074 | 1,205,121 | 942,510 | 537,580 | 26,745,821 | 29,578,106 |
| Office Equipment | 2123 | 187,607,860 | 1,629,562 | 20,182,519 | 10,162,602 | 5,796,447 | 25,084,268 | 62,855,399 |
| Inventories | 1220 | | | | | | | 7,746,366 |
| General Purpose Computers | 2124 | 708,052,962 | 6,150,148 | 123,457,487 | 37,021,767 | 21,116,119 | 197,537,338 | 385,282,859 |
| Capital Leases | 2681 | | | | | | | |
| Land & Buildings | 2681.1 | 32,960,530 | 0 | 0 | 2,789,946 | 1,591,302 | 0 | 4,381,248 |
| Computers | 2681.3 | 39,768,970 | 0 | 0 | 2,079,389 | 1,186,022 | 0 | 3,265,411 |
| Computer Software | 2681.4 | 267,133,121 | 0 | 28,651,988 | 13,393,753 | 7,639,400 | 0 | 49,685,141 |
| Other | 2681.9 | 156,365 | 0 | 0 | 9,019 | 5,144 | 0 | 14,162 |
| Leasehold Improvements | 2682 | 118,812,709 | | | | | | |
| Land & Buildings | 2682.1 | 102,777,573 | 892,726 | 2,667,817 | 8,699,613 | 4,962,002 | 0 | 17,222,158 |
| Computers | 2682.2 | 16,035,136 | 139,281 | 2,795,917 | 838,425 | 478,213 | 0 | 4,251,836 |
| Intangibles | 2690 | 16,174,050 | 0 | 0 | 932,854 | 532,072 | 0 | 1,464,926 |
| Total Plant in Service (Sec. D only) | | | - | - | - | - | - | - |
| less Land & Building | | | - | - | - | - | - | - |

Company: U S WEST
 Jurisdiction: U S WEST
 Report Source: MR 2A
 Study: Retail

Asset Related Expenses Section D

| Account Description | Account No. | Investment Factor Base | Ad Valorem | Depreciation Expense | Cost of Money Expense | Income Tax Expense | Associated Operating Expenses | Total Cost |
|----------------------------------|-------------|------------------------|------------|----------------------|-----------------------|--------------------|-------------------------------|--------------------|
| a | b | i=h | j=i*Ad V. | k=i*Dep | l=i*COM | m=i*IT | n | o=sum(j;n) |
| Inventories | | | | | | | | 7,746,366 |
| Plant Supplies - Nonexempt | 1220.11 | 12,551,133 | 0 | 0 | 723,898 | 412,890 | 0 | 1,136,789 |
| Plant Supplies -Exempt | 1220.12 | 2,655,635 | 0 | 0 | 153,166 | 87,361 | 0 | 240,528 |
| CO and PBX Eqpt. | 1220.14 | 33,904,732 | 0 | 0 | 1,699,945 | 969,598 | 0 | 2,669,543 |
| Motor Vehicles | 1220.151 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tools & Other Work Eqpt. | 1220.152 | 158,423 | 0 | 0 | 9,137 | 5,212 | 0 | 14,349 |
| Furn. & Office Eqpt. | 1220.16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 1220.19 | 40,687,343 | 0 | 0 | 2,346,681 | 1,338,477 | 0 | 3,685,158 |
| Other Studies | | | | | | | | 364,580,007 |
| Land - CO | 2111 | 69,009,487 | 599,416 | 0 | 7,386,664 | 4,213,134 | 2,517,604 | 14,716,819 |
| Buildings - CO | 2121 | 1,506,422,556 | 13,084,786 | 39,102,504 | 127,511,219 | 72,728,620 | 54,957,308 | 307,384,437 |
| General Purpose Computers - B&C | 2124 | 157,605,730 | 1,368,963 | 27,480,441 | 8,240,687 | 4,700,243 | - | 41,790,334 |
| General Purpose Computers - AMA | 2124 | 2,201,486 | 19,122 | 383,855 | 115,108 | 65,654 | - | 583,740 |
| General Purpose Computers - E911 | 2124 | 394,770 | 3,429 | 68,833 | 20,641 | 11,773 | - | 104,676 |

Company: U S WEST
 Jurisdiction: U S WEST
 Study: Retail

Commerical Marketing Expenses - Section E

| Account Description | Account No. or FRC | EOY Bk. Opr. Exp. | Cost Savings Amount | Inflation Amount | Numerator Base | EOY Bk. Opr. Exp. | Adjustment | Denominator Base |
|--|-----------------------|----------------------|------------------------|---------------------|-------------------|----------------------|-------------|---------------------|
| a | b | c | d=c*Factor | e=c*Factor | f=sum(c:e) | g | h=g*Factor | i=(g+h) |
| Marketing Groups | | | | | | | | |
| Group 1 - Residence | | | | | | | | |
| - Product Management | 6611 | 10,509,459 | (1,022,045) | 748,526 | 10,235,940 | 1,621,261,077 | 431,631,807 | 2,052,892,884 |
| - Sales | 6612 | 352,626 | (34,293) | 25,115 | 343,449 | 1,621,261,077 | 431,631,807 | 2,052,892,884 |
| - Advertising | 6613 | 20,716,368 | (2,014,667) | 1,475,503 | 20,177,204 | 1,621,261,077 | 431,631,807 | 2,052,892,884 |
| Group 2 - BUS, Centrex, Pri. Ln., PBX, ISDN, Public, ACS | | | | | | | | |
| - Product Management | 6611 | 50,140,965 | (4,876,209) | 3,571,240 | 48,835,996 | 2,208,601,948 | 588,000,824 | 2,796,602,772 |
| - Sales | 6612 | 136,449,684 | (13,269,732) | 9,718,492 | 132,898,445 | 2,208,601,948 | 588,000,824 | 2,796,602,772 |
| - Advertising | 6613 | 12,596,756 | (1,225,035) | 897,191 | 12,268,913 | 2,208,601,948 | 588,000,824 | 2,796,602,772 |
| Group 3 - Interconnect, Carrier Features, PAL | | | | | | | | |
| - Product Management | 6611 | 24,109,694 | (2,344,668) | 1,717,189 | 23,482,215 | 1,516,320,863 | 403,693,349 | 1,920,014,212 |
| - Sales | 6612 | 8,293,635 | (806,556) | 590,706 | 8,077,785 | 1,516,320,863 | 403,693,349 | 1,920,014,212 |
| - Advertising | 6613 | 0 | 0 | 0 | 0 | 1,516,320,863 | 403,693,349 | 1,920,014,212 |
| Group 4 - Operator Services / DA | | | | | | | | |
| - Product Management | 6611 | 903,703 | (87,885) | 64,365 | 880,183 | 17,964,993 | 4,782,859 | 22,747,852 |
| - Sales | 6612 | 680,357 | (66,165) | 48,458 | 662,650 | 17,964,993 | 4,782,859 | 22,747,852 |
| - Advertising | 6613 | 571,530 | (55,581) | 40,707 | 556,655 | 17,964,993 | 4,782,859 | 22,747,852 |
| Group 5 - Toll | | | | | | | | |
| - Product Management | 6611 | 3,895,949 | (378,881) | 277,485 | 3,794,553 | 501,640,638 | 133,552,861 | 635,193,498 |
| - Sales | 6612 | 15,432,812 | (1,500,841) | 1,099,187 | 15,031,158 | 501,640,638 | 133,552,861 | 635,193,498 |
| - Advertising | 6613 | 13,212,997 | (1,284,964) | 941,082 | 12,869,116 | 501,640,638 | 133,552,861 | 635,193,498 |
| Group 6 - Billing & Collection | | | | | | | | |
| - Product Management | 6611 | 1,580,185 | (153,673) | 112,547 | 1,539,059 | 35,823,456 | 9,537,355 | 45,360,811 |
| - Sales | 6612 | 323,816 | (31,491) | 23,063 | 315,388 | 35,823,456 | 9,537,355 | 45,360,811 |
| - Advertising | 6613 | 189,066 | (18,387) | 13,466 | 184,145 | 35,823,456 | 9,537,355 | 45,360,811 |
| Group 7 - Listings, Features, Information Services, Misc. | | | | | | | | |
| - Product Management | 6611 | 23,736,746 | (2,308,399) | 1,690,626 | 23,118,973 | 394,637,744 | 105,065,251 | 499,702,995 |
| - Sales | 6612 | 56,490,912 | (5,493,741) | 4,023,509 | 55,020,680 | 394,637,744 | 105,065,251 | 499,702,995 |
| - Advertising | 6613 | 24,730,610 | (2,405,052) | 1,761,413 | 24,086,971 | 394,637,744 | 105,065,251 | 499,702,995 |